



KERNEX MICROSYSTEMS (INDIA) LTD.

(An ISO-9001 : 2008 Certified Company)

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CIN : L30007TG1991PLC013211

Registered Office :
'THRUSHNA', Plot No. 7,
Software Units Layout, Infocity
Madhapur, Hyderabad - 500 081.
Telangana, India.

FORM A

Format of covering letter of the annual audit report to be filed with the stock exchanges

1.	Name of the Company	M/s. Kernex Microsystems (India) Limited
2.	Annual financial statements for the year ended	31 st March, 2014
3.	Type of Audit observation	Un-qualified
4.	Frequency of observation	N.A.
5.	To be signed by-	
	a) CEO/Managing Director (COL.L.V. RAJU (Retd)- Managing Director	
	b) CFO (K.Suman Kumar)	
	c) Auditor of the Company GMK Associates (G.Satyanarayana Murthy)	 For GMK ASSOCIATES, CHARTERED ACCOUNTANTS, FIRM REGN. No. 006945S G. SATYANARAYANA MURTY Partner (M. No. 29919)
	d) Audit Committee Chairman (Sri.Venkata Ratnam Anugolu)	

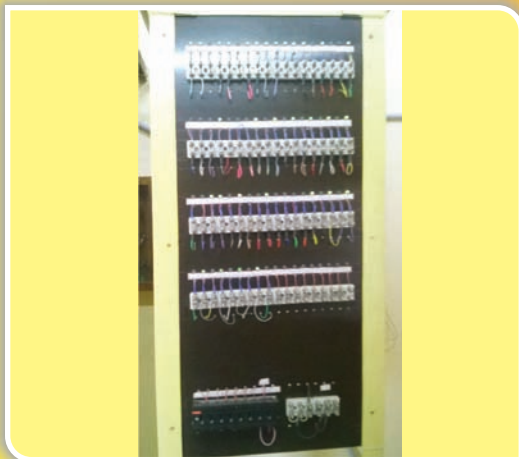
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ANNUAL REPORT

2013 - 14



KERNEX
MICROSYSTEMS (INDIA) LIMITED

BOARD OF DIRECTORS

Col. L.V. Raju (Retd.)	Managing Director
Sri B. Murali Mohan	Director - (Technical)
Sri M. Gopalakrishna, IAS (Retd.)	Director
Sri Arun Kumar Sanwalka	Director
Sri Venkata Ratnam Anugolu	Director
Dr. Anji Raju Manthena	Director
Dr. Jyoti Raju	Director
Dr. Raju Narasa Mantena	Director
Dr. Janardhana Reddy Vinta	Director

COMPANY SECRETARY

K. Ramanjaneyulu – Resigned on 15-06-2014
N.Subhash – Appointed on 11-08-2014.

BANKERS

STATE BANK OF HYDERABAD,
Overseas Branch, Somajiguda,
Hyderabad - 500 082.

AUDITORS

GMK Associates,
Chartered Accountants,
607, Raghava Ratna Towers,
Chirag Ali Lane, Abids,
Hyderabad - 500 001.

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Pvt. Ltd.,
Plot No. 17 to 24, Vittal Rao Nagar,
Madhapur, Hyderabad - 500 081

REGISTERED OFFICE

“Thrushna”, Plot No.7, Software Units Layout,
Madhapur, Hyderabad - 500 081.

OVERSEAS SUBSIDIARY

Avant - Garde Infosystems Inc.,
#5953, Killarney Circle,
Sanjose CA95138-2350,
Sanjose, ZIP95138, USA.



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NOTICE

Notice is hereby given that the Twenty Second (22nd) Annual General Meeting of the members of the company will be held on Saturday the 27th September, 2014 at 3.00 P.M at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad-500 003 to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2014 and the Statement of Profit and Loss for the year ended on that date together with the reports of the Director's and Auditors thereon.
2. To appoint a Director in place of Dr Anji Raju Manthena who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri. Vinta Janardhana Reddy who retires by rotation and being eligible, offers himself for re-appointment.
4. Appointment of Auditors.

To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of section 139 and other applicable provisions, if any, of the Companies Act, 2013 and the Rules framed there under, as amended from time to time, M/s GMK Associates, Chartered Accountants, be and hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting (AGM) till the conclusion of the Twenty Fifth (25th) Annual General Meeting of the Company to be held in the year 2017 (Subject to ratification of their appointment at every AGM) and the Board of Directors of the Company be and is hereby authorized to fix their remuneration."

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modifications, the following resolution as an ordinary resolution:

"RESOLVED THAT pursuant to Section 149, 152 and other applicable provisions of the Companies Act, 2013 and rules made there under, read with Schedule IV to the Companies

Act, 2013, Sri. Venkata Ratnam Anugolu (holding DIN No. 01757858), who was appointed as an Additional Director of the company by the Board of Directors with effect from 14th February, 2014, in terms of Section 260 of the Companies Act, 1956 (Corresponding to Section 161(1) of the Companies Act, 2013) and whose term of office expires at the Annual General Meeting and in respect of whom the Company has received a notice in writing from a member under Section 160 of the Companies Act, 2013 signifying his intention to propose Sri. Venkata Ratnam Anugolu as a candidate for the office of a director of the Company, be and is hereby appointed as a Non-Executive Independent Director of the Company to hold office for a term upto five consecutive years up to 31st March, 2019, whose period of office shall be not liable to determination by retirement of directors by rotation."

6. To consider and if thought fit, to pass with or without modifications, the following resolution as an ordinary resolution:

"RESOLVED THAT pursuant to the provisions of Sections 149, 152 and any other applicable provisions of the Companies Act, 2013 and the rules made there under (including any statutory modifications or re-enactment thereof for the time being in force) read with Schedule IV to the Companies Act, 2013, Sri. Gopalakrishna Muddusetty (holding DIN No.00088454), Director of the Company whose period of office is liable to determination by retirement of directors by rotation and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of director, be and is hereby appointed as a Non-Executive Independent Director of the Company to hold office for a term up to five consecutive years up to 31st March, 2019, whose period of office shall be not liable to determination by retirement of directors by rotation."

7. To consider and if thought fit, to pass with or without modifications, the following resolution as an ordinary resolution:

"RESOLVED THAT pursuant to the provisions of Sections 149, 152 and any other applicable provisions of the Companies Act, 2013 and the rules made there under (including any statutory modifications or re-enactment thereof for the



time being in force) read with Schedule IV to the Companies Act, 2013, Sri. Arun Kumar Sanwalka (holding DIN No. 02125521), Director of the Company whose period of office is liable to determination by retirement of directors by rotation and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of director, be and is hereby appointed as a Non-Executive Independent Director of the Company to hold office for a term upto five consecutive years up to 31st March, 2019, whose period of office shall be not liable to determination by retirement of directors by rotation."

8. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:

CREATION OF CHARGE ON COMPANY'S PROPERTIES

"RESOLVED THAT in supersession of Ordinary resolution passed at the Extra-ordinary General Meeting of the Company held on 2nd December, 2000 on the matter and pursuant to the provisions of Section 180(1)(a) of the Companies Act, 2013 and other applicable provisions of the Companies Act, 2013 and the rules made there under (including any statutory modification (s) or re-enactment thereof for the time being in force), consent of the Company be and is hereby accorded for creation by the Board of Directors on behalf of the Company, of such mortgages/charges/hypothecation and floating charges (in addition to the existing mortgages/charges/hypothecation created by the Company in favor of the lenders) in such form and in such manner as may be agreed to between the Board of Directors and the lenders, on all or any of the present and future immovable and / or movable properties of the Company wherever situated, of every nature and kind whatsoever to secure any Indian Rupee or foreign currency loans, Debentures, advances and all other moneys payable by the Company to the lenders concerned, subject, however, to an overall limit of Rs. 100 crores (Rupees one Hundred Crores only) of loans or advances already obtained or to be obtained from, in any form including by way of subscription to debentures issued or to be issued by the Company to, any financial institution, bank, body corporate, company, insurer or to the general public."

9. To consider and if thought fit, to pass with or without modifications, the following resolution as an Special resolution:

BORROWING POWERS OF THE BOARD:

"RESOLVED THAT in supersession of the Special Resolution passed at the Extra-ordinary General Meeting held on 23rd February, 2004 and pursuant to section 180(1)(c) and any other applicable provisions of the Companies Act, 2013 and the rules made there under (including any statutory modifications or re-enactment thereof for the time being in force), the consent of the Company be and is hereby accorded to the Board of Directors to borrow moneys in excess of the aggregate of the paid up share capital and free reserves of the company, provided that the total amount borrowed and outstanding at any point of time, apart from the temporary loans obtained or to be obtained from the Company's Bankers in the ordinary course of business, shall not be in excess of Rs.100 Crores (Rupees one hundred crores only) over and above the aggregate of the paid up share capital and free reserves of the Company."

By order of the Board

For KERNEX MICROSYSTEMS (INDIA) LIMITED

Place: Hyderabad

Date: 20-08-2014

Col.L.V.Raju (Retd)

Managing Director

NOTES:

1. Explanatory statement in respect of item No. 5 to 9 of the Notice is annexed hereto in pursuance of section 102 of the Companies Act, 2013 and the same forms part of the notice.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy/ proxies to attend and vote Instead of himself/herself. Such a proxy/ proxies need not be a member of the company. A person can act as proxy on behalf of members not exceeding fifty (50) and holding in the aggregate not more than ten percent of the total share capital of the Company.

The instrument of Proxy in order to be effective, should be deposited at the Registered Office of the Company, duly completed and signed, not less than 48 hours before the commencement of the meeting. A Proxy form is sent herewith.

Proxies submitted on behalf of the companies, societies etc., must be supported by an appropriate resolution/authority, as applicable.

3. Shareholders holding shares in physical form are requested to advise any change of address immediately to company's Registrar and Share Transfer Agent, Karvy Computershare Private Limited. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository participants and not to the Company.
4. The Register of Members and Share Transfer Books of the Company shall remain closed from September 26th, 2014 to September 27th, 2014 (both days inclusive).
5. Members seeking any information with regard to accounts are requested to write to the Company at least 10 days in advance of the meeting to enable the management to keep the information ready.
6. The Notice of the AGM along with the Annual Report 2013-14 is being sent by electronic mode to those Members whose e-mail addresses are registered with the Company/Depositories, unless any Member has requested for a physical copy of the same. For Members who have not registered their e-mail addresses, physical copies are being sent by the permitted mode.
7. To support the 'Green Initiative', the Members who have not registered their e-mail addresses are requested to register the same with Depositories.
8. All documents referred to in the accompanying Notice and the Explanatory Statement shall be open for inspection at the Registered Office of the Company during normal business hours (09.00 am to 5.00 pm) on all working days except Saturdays, up to and including the date of the Annual General Meeting of the Company.
9. Transfer of Unclaimed/Unpaid amounts to the Investor Education and Protection Fund (IEPF):
Pursuant to sections 205A and 205C and other applicable provisions, if any, of the Companies Act, 1956, all unclaimed/unpaid dividend, application money, debenture interest and interest on deposits as well as the principal amount of debentures and deposits, as applicable, remaining unclaimed/unpaid for a period of seven years from

the date they became due for payment, in relation to the Company have been transferred to the IEPF established by the Central Government. It may be noted that the unclaimed Final Dividend for the financial year 2006-07 declared by the Company on 6th September, 2007 can be claimed by the shareholders by 5th September, 2014.

10. In compliance with the provisions of section 108 of the Act and the Rules framed there under, the Members are provided with the facility to cast their vote electronically, through the e-voting services provided by KARVY, on all resolutions set forth in this Notice.

PROCEDURE AND INSTRUCTIONS FOR E-VOTING:

A. THE PROCEDURE AND INSTRUCTIONS FOR E-VOTING ARE AS FOLLOWS:

- i) Open your web browser during the voting period and navigate to 'https://evoting.karvy.com'
- ii) Enter the login credentials (i.e., user-id & password) mentioned on the enclosed Form. Your folio/DP Client ID will be your User-ID.

User – ID	For Members holding shares in Demat Form:- For NSDL :- 8 Character DP ID followed by 8 Digits Client ID For CDSL :- 16 digits beneficiary ID For Members holding shares in Physical Form:- Event no. followed by Folio Number registered with the company
Password	Your Unique password is printed on the Note/ via email forwarded through the electronic notice
Captcha	Enter the Verification code i.e., please enter the alphabets and numbers in the exact way as they are displayed for security reasons.

Please contact toll free no. : 1-800-34-54-001 for any further clarifications.

- iii. Cut-off date for determining voting rights of members entitled to participate in e-voting: 22-08-2014.
- iv. Commencement of e-voting : 21.09.2014 at 10.00 A.M
End of e-voting : 23.09.2014 at 6.00 P.M
- v. After entering these details appropriately, click on "LOGIN".
- vi. Members holding shares in Demat/Physical form will now reach Password Change menu wherein they are required to mandatorily change their login password in the new password field. The new password has to be minimum eight characters consisting of at least one upper case (A-Z), one lower case (a-z), one numeric value (0-9) and a special character. Kindly note that this password can be used by the Demat holders for voting for resolution of any other Company on which they are eligible to vote, provided that Company opts for e-voting through Karvy Computershare Private Limited e-Voting platform. System will prompt you to change your password and update any contact details like mobile #, email ID etc on 1st login. You may also enter the Secret Question and answer of your choice to retrieve your password in case you forget it. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.
- vii. You need to login again with the new credentials.
- viii. On successful login, system will prompt to select the 'Event' i.e., 'KERNEX MICROSYSTEMS (INDIA) LIMITED'
- ix. If you are holding shares in Demat form and had logged on to "https://evoting.karvy.com" and casted your vote earlier for any company, then your existing login id and password are to be used.
- x. On the voting page, you will see Resolution Description and against the same the option 'FOR/AGAINST/ABSTAIN' for voting. Enter the number of shares (which represents number of votes) under 'FOR/AGAINST/ABSTAIN' or alternatively you may partially enter any number in 'FOR' and partially in 'AGAINST', but the total number in 'FOR/AGAINST' taken together should not exceed your total shareholding. If the shareholder do not wants to cast, select 'ABSTAIN'
- xi. After selecting the resolution you have decided to vote on, click on "SUBMIT". A confirmation box will be displayed. If you wish to confirm your vote, click on "OK", else to change your vote, click on "CANCEL" and accordingly modify your vote.
- xii. Once you 'CONFIRM' your vote on the resolution, you will not be allowed to modify your vote.
- xiii. Corporate/Institutional Members (corporate/Fls/Flls/Trust/Mutual Funds/Banks, etc) are required to send scan (PDF format) of the relevant Board resolution to the Scrutinizer through e-mail to kernexscrutinizer@gmail.com with copy to evoting@karvy.com. The file scanned image of the Board Resolution should be in the naming format "Corporate Name_ Event no."

B. OTHER INSTRUCTIONS:

- i. The voting rights of Members shall be in proportion to their shares of the paid up equity share capital of the Company as on 22nd August, 2014.
- ii. Mr. A.J. Sharma, Practicing Company Secretary (Membership No. FCS 2120), has been appointed as the Scrutinizer to scrutinize the e-voting process in a fair and transparent manner.
- iii. The Scrutinizer shall, within a period not exceeding three working days from the conclusion of the e-voting period, unblock the votes in the presence of at least two witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company.

The results declared along with the Scrutinizer's Report shall be placed on the Company's website www.kernex.in and on the website of KARVY www.evoting.karvy.com within two days of the passing of the resolutions at the twenty second AGM of the Company on 27th September, 2014 and communicated to the BSE Limited and National Stock Exchange of India Limited, where the shares of the Company are listed.

11. Details of Directors Seeking Appointment/ Reappointment at the 22nd Annual General Meeting.

Particulars	Dr Anji Raju Manthana	Dr Vinta Janardhana Reddy
Date of Birth	October 13, 1944	August 10, 1946
Date of Appointment	May 20, 2005	September 20, 2008
Qualifications	M.S. (General Surgery) from Andhra University and M.D. (USA)	MBBS and MD (USA)
Expertise in specific Functional area	He has been practicing for the last 37 years in the Space centre, NASA region of Houston, Texas and has been actively involved in software related activities in Corporate hospitals. He has served as a member of various committees in Clear Lake Regional Medical centre as well as managing partner of Anesthesia Associates and president professional corporation	He has 40 years experience as Physician working in USA. He is a member of Texas Medical Association, USA. He worked as executive vice president TANA and convener for 7th TANA conference.
Directorship held in other public companies (excluding foreign companies)	Nil	Nil
Memberships / Chairmanships of committees of other Public companies (includes only Audit and Shareholders/ Investors Grievance Committee)	Nil	Nil
Number of shares held in the company	84,078	1,98,655

EXPLANATORY STATEMENT

(Pursuant to section 102 of the Companies Act, 2013)

As required by section 102 of the Companies Act, 2013 (Act), the following explanatory statement sets out all material facts relating to the business mentioned under Item Nos. 5 to 9 of the accompanying Notice:

ITEM No. 5

Name of the Director : Venkata Ratnam Anugolu
 Date of Birth : 24/02/1959
 Occupation : Practicing Chartered Accountant
 Experience : 30 years in service as Practicing Chartered Accountant
 Share Holding in the Company : Nil

Director and Committee positions held in other Companies :

Name of the Company	Position	Name of the Committee	Position
India Tourism Development Corporation Limited	Director	Audit Committee	Chairman
		Corporate Social Responsibility Committee	Chairman
Thrive Solar Energy Private Limited	Director	-	-

Brief Profile

The Board, in its meeting held on 14th February, 2014, appointed Sri. Venkata Ratnam Anugolu as an Additional Director of the Company with effect from 14th February, 2014.

He appointed as a Director of United India Insurance Company under professional category for a tenure of 3 years 2007 to 2010 by the Central Government.

He is a Co-opted member on committee on accounting standards on local bodies for the financial year 2014-15 by the Institute of Chartered Accountants of India.

Pursuant to the Provisions of the Section 161 of the Companies Act, 2013 Sri. Venkata Ratnam Anugolu will hold office up to the date of the ensuing AGM. Whose period of office is liable to determination by retirement of directors by rotation under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and other applicable provisions of the Companies Act, 2013, Sri. Venkata Ratnam Anugolu being eligible and offering himself for appointment, is proposed to be appointed as a Non-Executive Independent Director of the Company for a term upto five consecutive years up to 31st March, 2019.

A notice has been received from a member proposing Sri. Venkata Ratnam Anugolu as a candidate for the office of Director of the Company.

In the opinion of the Board, Sri. Venkata Ratnam Anugolu fulfils the conditions specified in the Companies Act, 2013 and rules made there under for his appointment as an Independent Director of the Company and is independent of the management. Copy of the draft letter for appointment of Sri. Venkata Ratnam Anugolu as a Non-Executive Independent Director setting out terms and conditions would be available for inspection without any fee by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Sri. Venkata Ratnam Anugolu as a Non-Executive Independent Director.

Accordingly, Your Directors recommend the resolution at Item No.5 as an Ordinary Resolution for its approval by the members of the Company.

None of the Directors of the Company except Sri. Venkata Ratnam Anugolu is interested in the above said resolution.

ITEM No.6

Name of the Director : Gopalakrishna Muddusetty
 Date of Birth : 12-01-1939
 Occupation : Retired IAS officer
 Qualifications : Joined in Indian Administrative Services (IAS), Graduate in Science and Law, Advance Management at Banff School of Management, Canada

Share Holding in the Company : Nil

Director and Committee positions held in other Companies :

Name of the Company	Position	Name of the Committee	Position
JOCIL Limited	Director	-	-
PITTI Laminations Limited	Director	Remuneration Committee	Member
BGR Energy Systems Limited	Director	Audit Committee Share Holder's Grievance Committee	Member Chairman
Goldstone Infratech Limited	Director	Audit Committee Remuneration Committee	Member Chairman
Arani Power Systems Limited	Director	-	-
Vijayasri Organics Limited	Director	Audit Committee	Chairman
Nuziveedu Seeds Limited	Director	Corporate Social Responsibility Committee	Member
NSL Textiles Limited	Director	Audit Committee	Member
NSL Renewable Power Private Limited	Director	Audit Committee	Member
Suven Life Sciences Limited	Director	Audit Committee Corporate Social Responsibility Committee	Member Chairman

Brief Profile

Sri. Gopalakrishna Muddusetty is a Non-Executive Independent Director of the Company. He Joined the Board of Directors of the Company on 25th September, 2008. He is the Chairman for the Remuneration Committee and Share holders/investors grievance committee and Member for the Audit Committee of the Board of Directors of the Company.

Sri. Gopalakrishna Muddusetty is a Retired IAS officer, who joined Indian Administrative Services (IAS) in 1962 and served under the Government of Assam, Government of Andhra Pradesh, Government of India and retired as Chairman of Rural Electrification Corporation in 1997 in the rank of Secretary to Government of India.

After Retirement, he was director in Institute of Public Enterprises, Chairman of AP State Financial Corporation, Hyderabad.

Sri. Gopalakrishna Muddusetty does not hold by himself or for any other person on a beneficial basis, any shares in the Company.

Sri. Gopalakrishna Muddusetty is a director whose period of office is liable to determination by retirement of directors by rotation under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and other applicable provisions of the Companies Act, 2013, Sri. Gopalakrishna Muddusetty being eligible and offering himself for appointment is proposed to be appointed as a Non-Executive Independent Director of the Company for a term upto five consecutive years upto 31st March, 2019.

A notice has been received from a member proposing Sri. Gopalakrishna Muddusetty as a candidate for the office of Director of the Company.

In the opinion of the Board, Sri. Gopalakrishna Muddusetty fulfils the conditions specified in the Companies Act, 2013 and rules made there under for his appointment as an Independent Director of the Company and is independent of the management. Copy of the draft letter for appointment of Sri. Gopalakrishna Muddusetty as a Non-Executive Independent Director setting out terms and conditions would be available for inspection without any fee by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Sri. Gopalakrishna Muddusetty as a Non-Executive Independent Director.

Accordingly, Your Directors recommend the resolution at Item No.6 as an Ordinary Resolution for its approval by the members of the Company.

None of the Directors of the Company except Sri. Gopalakrishna Muddusetty is interested in the above said resolution.

ITEM No.7

Name of the Director	:	ARUN KUMAR SANWALKA
Date of Birth	:	21/05/1947
Occupation	:	Retired Employee of Indian Railways
Experience	:	38 years in Indian Railways
Director in other Companies	:	Nil
Committee positions held in other Companies	:	Nil
Share Holding in the Company	:	Nil

Brief Profile

Sri. Arunkumar Sanwalka did M.Sc(Engg.), (UK) I .Mech(E), UK AMIE (India) – Mech & Prod, and retired from the top executive position of Indian Railways viz. General Manager, Northeast Frontier Railway after 38 years of service. After retirement, he was on the Board of Directors of M/s. RITES Ltd, and NTPC Ltd, leading PSUs of GOVT. of India, as Non-Executive independent Director.

Currently, holds the position of President of Amsted Aikon Rail Ventures Pvt Ltd. A joint venture of Amsted Rail, USA and Aikon Technologies Pvt Ltd.

Sri. Arunkumar Sanwalka does not hold by himself or for any other person on a beneficial basis, any shares in the Company.

Sri. Arunkumar Sanwalka is a director whose period of office is liable to determination by retirement of directors by rotation under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and other applicable provisions of the Companies Act, 2013, Sri. Arunkumar Sanwalka being eligible and offering himself for appointment, is proposed to be appointed as a Non-Executive Independent Director of the Company for a term up to five consecutive years up to 31st March, 2019.

A notice has been received from a member proposing Sri. Arunkumar Sanwalka as a candidate for the office of Director of the Company.

In the opinion of the Board, Sri. Arunkumar Sanwalka fulfils the conditions specified in the Companies Act, 2013 and rules made there under for his appointment as an Independent Director of the Company and is independent of the management. Copy of the draft letter for appointment of Sri. Arunkumar Sanwalka as an Independent Director setting

out terms and conditions would be available for inspection without any fee by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Sri. Arunkumar Sanwalka as a Non-Executive Independent Director.

Accordingly, Your Directors recommend the resolution at Item No.7 as an Ordinary Resolution for its approval by the members of the Company.

None of the Directors of the Company except Sri. Arunkumar Sanwalka is interested in the above said resolution.

ITEM No.8 & 9

The members of the Company at their Extra-ordinary General Meeting held on 2nd December, 2000 had approved by way of an Ordinary Resolution under Section 293 (1)(a) and for creation of mortgages/charge/hypothecation on all present and future properties of the Company in favor of lenders.

The members of the Company at their Extra-ordinary General Meeting held on 23rd February, 2004 had approved by way of an Special Resolution under Section 293(1)(d) of the Companies Act, 1956 borrowings over and above the aggregate of paid up share capital and free reserves of the Company provided that the total amount of such borrowings together with the amounts already borrowed and outstanding at any point of time shall not be in excess of 100 Crores (Rupees one hundred crores).

Section 180 of the Companies Act, 2013 effective from September 12, 2013 requires that consent of the company accorded by way of a special resolution is required to borrow money in excess of the company's paid up share capital and free reserves and for creation of charge. Further, as per the clarification issued by the Ministry of Corporate Affairs approval granted by the shareholders by way of an ordinary resolution shall be valid for one year from the date Section 180 became effective. Thus, the approval granted by members is valid up to 11th September, 2014.

It is, therefore, necessary for the members to pass a Special Resolution under Section 180(1)(c) read with Section 180 (1)(a) and other applicable provisions of the Companies Act, 2013, as set out at Item No. 8 & 9 of the Notice. The Board recommends these resolutions for approval by the members of the Company.

None of the Directors and Key Managerial Personnel of the Company and their relatives is concerned or interested, financial or otherwise, in the resolution set out at Item No. 8 & 9.

IMPORTANT COMMUNICATION TO MEMBERS

The Ministry of Corporate Affairs has taken a "Green Initiative in the Corporate Governance" by allowing paperless compliances by the Companies and has issued circulars stating that service of notice / documents including Annual Report can be sent by e-mail to its members. To support this green initiative of the Government in full measure, members who have not registered their e-mail addresses, so far are requested to give their consent by providing their e - mail Id to the Company or to the Karvy ComputerShare Private Limited, Registrar and Share Transfer Agent of the Company.

By order of the Board

For KERNEX MICROSYSTEMS (INDIA) LIMITED

Place: Hyderabad
Date: 20-08-2014

Col.L.V.Raju (Retd.)
Managing Director

DIRECTORS REPORT

To
The Members,

Kernex Microsystems (India) Limited.

Your Directors present herewith, the Twenty Second (22nd) Annual Report together with the audited accounts of the company for the year ending 31st March 2014.

Financial Results

Rs in Lakhs

	2013-2014	2012-2013
Sales and Other Income	3312.16	3144.26
Profit before interest and depreciation	412.33	696.25
Interest	219.52	245.45
Depreciation	403.18	275.95
Profit before Tax	(210.37)	174.85
Provision for Taxation	(39.93)	110.17
Profit after Tax	(170.44)	64.68
Add: Balance brought forward from previous year	1976.74	1912.06
Profit available for appropriation	1806.30	1976.74
Earnings Per Share (Rs.)		
Basic	(1.36)	0.52
Diluted	(1.36)	0.52
Appropriations:		
Transfer to General Reserve	-	-
Proposed Dividend	-	-
Income Tax on proposed Dividend	-	-
Balance carried to the Balance sheet	1806.30	1976.74

Dividend

In view of the company making losses in comparison with the previous years that is 2010-2011, 2011-2012 and 2012-2013, your Directors are not in a position to recommend any dividend on the paid up capital of the company for the financial year 2013-2014. As many orders in the pipeline are not finalized, existing reserves are required to sustain the company's business and provide seed capital to enable the company to take up new R&D and other projects which are profitable.

Year in Retrospect

The year 2013-2014 was a very difficult year owing to financial constraints of the Indian Railways, KRCL keeping on hold and dropping of ACD Project and Indian Railways opting for the new TCAS Project. With reduced revenues from the main sources of income, combined with the slow progress of ENR Project, have lead to a drop in our turnover. The Country's economic slow down, Railway constraints and hold up of investments have severely affected your Company operations and proposals of diversification.

The Company's Business and Operational Results

1. KRCL has dropped the ACD Version 1.0, developed over 6 years and Ver 2.0, developed over a period of 4 years on instructions of Indian Railways and the same was informed to Kernex towards the end of 2011-2012.
2. Taking account of the inadequacies of ACD System, Indian Railways and RDSO have come out with New Development Notification for development of TCAS System (Train Collision and Avoidance System) in place of ACD System.
3. Kernex which allowed keen interest to develop the TCAS System in conjunction with RDSO was short listed for receiving the competitive tender in the IIIrd quarter of 2011-2012, after thorough evaluation of our Strengths.
4. Kernex submitted tender to RDSO in response and was awarded, Package B of the contract for development of TCAS System valued at Rs.5.80 crores, in the Vikarabad-Bidar sector.
5. The development work started in July 2013 and continued up to year end. The primary functionality of Inter-communications, logics, Braking Interface, SPAD Protection, use of RFID Tags and RF reader interoperability with the other vendors, design according to SIL specifications, documentation and partial certifications have been completed satisfactorily.
6. The equipment is presently being evaluated for type testing, environmental screening and site acceptance trials, as a prelude for final user's evaluation and certification criteria testing. We expect all related development, testing, approval and certification to be completed by the end of January 2015.

7. Kernex, successfully executed CMC agreement for operational and comprehensive maintenance of ACD System, in NF Railway, which involved over 1250 ACDs and 8 Loco sheds including 200 Guard and SLR ACDs.
8. Egyptian National Railways Project has progressed satisfactorily, and over 73 Gates were installed. As on 31 March 2014, more than 50% Gates have been completed and balance gates are being installed despite difficult local, administrative problems and financial constraints.
9. The project delays are due to many forced stoppages of work because of avoidable accidents which necessitated diversing of manpower, local difficulties and delay in power supply, shortage of materials like booms etc, which are to be provided by ENR. ENR has also delayed payments and is withholding substantial payments. At present, the PHO is also held up by ENR. With provision of sufficient funds and strengthening the protect team, the project is expected to move faster.

International Operations

Egypt

Over 50% of Gates have been completed and the remaining gates are expected to be completed by 31 March 2015. We have separately submitted a new tender for over 75 gates, which is being evaluated by ENR and is likely to be finalized shortly.

Sale of additional Lx Gate materials to Egyptian Govt. Ministry of Defence Production

Egyptian Govt. of Defence Production is seeking technical collaboration with us to supply ECM Modules, Digital Axle Counter, Sensors, Mechanical locks to be supplied to them in knock down conditions with final assembling to be done in Egypt. Quotations have been submitted and final terms and conditions of supply are being negotiated.

Supply of additional items as part of spares for ENR as part of original contract

Action is in hand to supply 500 booms, if ordered as part of 5 year spares along with 96 control panels and supply of two years maintenance costing over 2.00 million dollars to ENR.

Work tender submitted to Richards Bay Coal Terminal, South Africa

The work is under technical evaluation and the complete South African Railway team is likely to visit India in September 2014.

Domestic Market

Kernex plans to complete the development of TCAS project in about 6 month's time and be ready to bid for tenders in Railway market. Digital Axle counters are greatly in demand and we are pursuing our association with other companies to secure approvals from RDSO and market the product in India and abroad.

New areas of business in India

Your company proposes to take part in Defence projects, in Microwave, RF and Radar technologies and accept outsourced manufacturing orders from Defence vendors or jointly manufacture Electronic Components required by DRDO and Defence Ministry to utilize our infrastructure and expertise.

Research & Development

Your company intends to take up R&D work in Defence related projects and GIS projects, besides new projects of Railways which are being tendered by RDSO. Kernex also explore scope for Joint Ventures in emerging areas of interest.

Progress achieved on the IPO and Company Expansion Projects

As part of IPO related work, acquiring of some land and approach stretches is in progress. All efforts are being made to complete the revised project works during the year 2014-15.

Subsidiary company and consolidated financial statements

The Company had one Wholly Owned subsidiary in USA as on March 31, 2014. There has been no material change in the nature of the business of the subsidiaries. As required under the Listing Agreements entered into with the Stock Exchanges, consolidated financial statements of the Company is also attached.

The consolidated financial statements have been prepared in accordance with the relevant accounting standards as prescribed under section 211(3C) of the Companies Act, 1956. The consolidated financial statements disclose the assets, liabilities, income, expenses and other details of the Company and its subsidiaries.

The members may refer to the statement under section 212 of the Companies Act, 1956 for further information on this subsidiary. The Balance Sheet of the said company is also attached herewith as required under Section 212 of the Companies Act, 1956.

Corporate Governance Report, Management Discussion & Analysis Report and Business Responsibility Report

As per clause 49 of the Listing Agreements entered into with the Stock Exchanges, Corporate Governance Report with auditors' certificate thereon and Management Discussion and Analysis are attached and form part of this report.

Directors' Responsibility Statement:

As required under Section 217 (2AA) of the Companies Act, 1956 it is hereby stated that:

- a). In the preparation of the Annual Accounts for the year ended March 31, 2014 the applicable Accounting Standards had been followed along with proper explanation relating to material departures
- b). The directors had selected such Accounting Policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period.
- c). The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d). The directors had prepared the annual accounts on a going concern basis.

Audit Committee of Board:

The Audit Committee of the company comprises four (4) Directors including three (3) independent Directors and One (1) Managing Director, The Chairman of the Audit Committee was present at the Board Meeting where Annual accounts have been approved.

Fixed deposits

The company has not accepted any deposits from the public and therefore, the provisions of section 58A of the Companies Act, 1956 are not applicable.

Conservation of Energy, Technology Absorption, etc.:

The particulars prescribed under 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules 1988, in respect of technology absorption, foreign exchange earnings and outgo are set out in the annexure forming part of this report.

Employee Relations:

Relations between the employees and the management continued to be cordial during the year.

Particulars of Employees:

None of the employees are covered under section 217(2A) read of the Companies Act, 1956 read with the Companies (particulars of employees) Rules, 1975.

Directors:

Inductions

On 14th February, 2014, the Board Appointed Sri. Venkata Ratnam Anugolu as Independent Non-Executive Additional Director.

Re-Appointments

Dr Anji Raju and Dr Janardhana Reddy Vinta, Directors retire by rotation and being eligible, offer themselves for reappointment.

Details regarding Directors proposed to be appointed at the Annual General Meeting to be held on 27th September, 2014, due to changes arising from the implementation of the Companies Act, 2013 are provided in the annexure to the Notice convening the Annual General Meeting.

Auditors:

M/s. GMK Associates, Chartered Accountants, Hyderabad the Statutory Auditors of the Company retire at the conclusion of this Annual General Meeting and are eligible for re-appointment.

Acknowledgements:

The Directors take this opportunity to thank all share holders, investors, Indian Railways, RDSO, Konkan Railway Corporation, NF Railway, Egyptian National Railways, Embassy of India, Egypt, our local agents in Egypt, Eagle Aviation Resources, State Bank of Hyderabad for their continued support during the year. Your Directors would like to place on record their

appreciation of the contribution made by employees at all levels for their commendable team work, dedicated and whole hearted efforts made during the year.

We thank the governments of various countries where we have our operations. We also thank the Government of India, particularly the Ministry of Railways (Railway Board), Ministry of Corporate Affairs, the Customs and Excise Departments, the Income Tax Department, the Reserve Bank of India, the Software Technology Parks (STPs) for and other government agencies for their support, and look forward to their continued cooperation in the future.

The directors appreciate and value the contributions made by every member of the KERNEX family locally and globally.

By order of the Board

For Kernex Microsystems (India) Limited

B. Murali Mohan
Technical Director

Col. L.V.Raju (Retd.)
Managing Director

Place: Hyderabad
Date: 20-08-2014

ANNEXURE OF THE DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of Energy:

The activities of the company do not result in significant consumption of energy. However the company takes all the necessary steps to conserve energy at the offices and work places on an ongoing basis.

B. Technology Absorption Adaptation and Innovation:

There is no imported technology involved in the operation of the company. The company continues to focus its attention towards the rapid technological changes in the fields of its activity and train the man power continuously to improve the productivity. The technologies being used are indigenous and the company has evolved a training methodology to measure the extent of adaptation by its personnel and training needs are accordingly identified.

The Company is, further, in the process of establishing special R&D projects like Up-gradation of Anti-Collision Devices to international standards and implementation of SPAD features in ACD system, Developing of Multi Section Digital Axle Counter and Railway Diagnostic System for Hot bearings, Vibrations and Wobbling of wheels etc., these efforts are likely to become import substitutes at economical prices and suitable to Indian Railways and other railways working in developing countries.

C. Foreign exchange earnings and out go:

(Rs. In lacs)

Foreign Exchange Earned for 2013-2014	115.49
Foreign Exchange Used for 2013-2014	360.38

By order of the Board

For Kernex Microsystems (India) Limited

B. Murali Mohan
Technical Director

Col.L.V Raju (Retd.)
Managing Director

Place: Hyderabad
Date: 20-08-2014

MANAGEMENT DISCUSSION AND ANALYSIS

Indian Economy is expected to register a GDP growth rate in the range of 4.5% to 4.7% during 2013-2014 and estimated to grow at 5.7% to 5.9% in the FY 2014-2015.

The low growth is attributed to down turn of world economy along with recession and internal slow down of manufacturing due to dropping domestic demand.

Other factors that have contributed to low growth are high oil prices, shortage of power, high interest rates, inflation, slow down of domestic demand, foreign investments, policy constraints and delay in implementing much needed reforms.

Major factors that affected Indian economy are the fiscal deficit, revenue deficit and current account deficit; slow down of investment and growth of employment.

Indian Software Industry grew by 13.5% and hardware by 9.5%. Central and State Governments are expected to spend US\$6.4 billion on IT products and services which is an increase of 4.3% over last year. Cheap labour, affordable real estate, favorable Govt. policies, tax breaks in SEZs are making India a most favored IT destination. Investments are yet to take shape on the ground.

Indian Railways have had a lack luster performance and could not start any of the projects that were planned, including those related to safety, security, speed and services which have affected our Company.

Windows of Opportunities for Kernex

Govt. of India and RBI has identified five important sectors – Infrastructure, Iron & steel, Textile, Aviation, Mining, Infrastructure, Defence and Railways play an important role, Kernex has capacity to avail opportunities, in Railways, Defence, IT sector and also other R&D Projects of Electronics and Automation Industry type. .

Railways have announced in Budget for 2014-2015, important objectives, including, Safety, Project Delivery, Passenger amenities/services, IT Initiatives and use of Advanced technologies like TCAS, Rail flaw detection, Auto door closing, Hot Box and Wheel detection system, etc. Besides the normal projects, Railway IT sector will be providing WI-FI services, next gen e-ticketing, GIS mapping and digitalization. Introduction of bullet trains and high speed trains in diamond quadrilateral and

related infrastructure projects like high speed corridors, high speed locos, wagons, coaches, electrification and safety equipment make the field challenging. Allowing 100% FDI, in high speed trains, corridors, locos and wagons manufacturing and PPP model for the last mile connection to coal fields, thermal power station and port connection, are expected to generate plethora of opportunities, for Railway service oriented companies.

New R&D Projects in Railways like TPWS, TCAS, Locotrol, Electronic Interlocking Block Equipment and On-board loco equipment, etc. could provide opportunities for a growth of your Company.

Defence Production Plans in India

India has embarked on ambitious scheme of indigenous production of both offensive and defensive weapon systems and is planning to achieve self-sufficiency in view of all round external and internal threats. R&D is as significant component of Defence expenditure. There is a big window of opportunity for production of assemblies, sub-assemblies and components required. DRDO, DRDL, RCI, HAL, BDL, etc., are the sources of projects especially for technology companies.

Period 2013-2014

During 2013-2014, your company was engaged with RDSO Lucknow of Indian Railways in developing Train Collision Avoidance System, which was awarded in April/May 2013 along with one more competitor, at a cost of Rs.5.8 crores. Project involved development of Hardware and Software to meet the functional logics and safety requirements of Indian Railways including Design, Manufacturing and Supply of all components of TCAS System. The TCAS equipment mainly protects trains from Signal Passing at Danger (SPAD), collisions in Station yards and block section, monitor and control temporary and permanent speed restrictions, side collisions and station approach requirements and also the shunting operations. Also, the equipment needs to be interoperable with other manufacturer's equipment.

Kernex successfully manufactured about 4 prototype units and installed them on Electric and Diesel Locos and Stations in Tandur section about 120 KMS from Hyderabad. The required trials are carried out successfully. Your company at present is in the final stages of manufacturing the equipment, to RDSO's specifications and to safety integrity level certification standards. These are expected to be submitted for type testing in September/October 2014 and be ready for

final site Acceptance Trials, in October to December 2014. We expect to round up development by 30 January 2015.

Project work of EN Railways Contract relating to 136 Lx Gates, Over 73 Nos. have been installed and a few more are undergoing site acceptance tests. We have come across certain maintenance problems with Barrier Booms, which are to be changed on the request of ENR. Action is in hand to overcome the observations to complete Preliminary Handing Over as early as possible and starting of warranty. However, due to frequent high impact accidents the equipment is affected and a large portion of manpower has to be diverted. These issues are being tackled from HQ, in Hyderabad and on site with the help of Egyptian National Railway personnel and Cairo University Consultants. We are hopeful that the project will be completed by 31 March 2015.

Your company, which has over 150 employees and 80 temporary manpower from Consultants deployed in NF Railway, has successfully completed operational and comprehensive maintenance for the year 2013-2014 in NF Railway.

As KRCL has been asked to continue, the operational and comprehensive maintenance, for the year 2014-2015, the agreement was signed on 22nd August 2014 and the contract is likely to continue for year 2015-2016 and 2016-2017 for two years, as confirmed by Railways.

KRCL who is having Technology collaboration for development of ACD System has since expressed their desire to discontinue the agreements, required for developing, manufacturing and Outsourced Manufacturing. Kernex has asked KRCL, to settle all outstanding liabilities with Kernex, before it can be closed. Action is on hand, to obtain balance of payments and claims from KRCL, before closing the above agreements.

Opportunities, Threats, Risks and Concerns

Opportunities

Your company continues to focus on R&D, acquiring of latest technologies which are in demand in India and delivering high tech and quality solutions with considerable value addition.

Indian Railways are keen to improve the safety of rail movements and also increase the throughput and capacity. Indian Railways are planning to introduce ETCS2 and GSM-R communication networks and

some high speed trains that can run upto 160 KMS. Safety, speed, reliability, operability, maintainability and increased capacity are the main considerations. For this purpose, TCAS, TPWS, ETCS2, Electronic Interlocking system, Multi-section and Single Digital Axle Counters and Data loggers, Hot Box and Vibration Detecting Systems and also track status monitoring system will be necessary. In addition, Indian Railways may adopt SIL 3 to SIL 4 Sensor Activated Warning Systems at Gates to avoid collisions and accidents.

We visualize opportunities in the Railway sector all over the world for simple, reliable, high tech, high safety level equipment like Electronic Gates in countries like Turkey, Greece, Iran, Central and South Africa, Malaysia, Thailand, South East Asia, Australia and New Zealand.

With the Company's infrastructure and accretion of technology and talented manpower, it may be possible to diversify into Defence related R&D work, manufacture, validation and verification needed for large projects, etc. Kernex may also be able to undertake some outsourced jobs for manufacture of Electronic components, assembly work etc.

Kernex could locally assemble and supply important components required by Railways like Radio modems and RF Readers and Tags, which are not manufactured in India.

Threats

For every Indian technology, that is developed there is a threat of latest or advanced or superior technology from MNCs. Further, the frequent changes of Govt. policies and priorities in the Government had adverse impacts on our finances; however, technology with continuous up gradations can help developing of indigenous products suited to our markets. In the emerging situation and growing competition, Kernex need to embark on relevant, fairly long term growth oriented, predictable, sustainable, risk reducible and profitable areas of business with sharp focus on sustainability, growth and continuity.

Risks and Concerns

Kernex faces the risk of competition, need for mastery of new technologies, price competitiveness, retention of key personnel and financial constraints etc. In order to take on the risks, Kernex need to build resilience, with qualified and experienced manpower, plan for leadership and succession pipeline, infrastructure and reserve of funds. Company may have to focus on five to six related relevant products with long term prospects. It will

have to constantly upgrade the technology developed and continuously introduce new technologies and products based on market demand. Kernex proposes to commission a comprehensive strategic study for future growth, prospects interalia, covering new technologies, scope for partnership, alliance and linkages and financial plan to improve internal resources.

Kernex faces the risk of a single and dominant customer like the Indian Railways, a yet to be fully developed and acceptable safety device and increased potential competitive environment. This related diversifications that can levied on our expertise, experience and infrastructure. We have to also develop a manufacturing mindset along with R&D focus for quality and price as the distinguishing differential.

Analysis of Financial performance of the Company

During the financial year under review, the revenues were generated from Lx Contract of Egyptian Railways, S/W Development and Comprehensive and Operational Maintenance Contract executed in NF Railway. A part of revenue is also utilized as work in process as for as TCAS is concerned and also the partially executed works, awaiting approvals in Egyptian Railway Project.

The slow progress of ENR has been attributed to wide spread area network, project delays from the local contractor and local agencies like power supply agencies, ENR which was supposed to finalize order for 500 booms, 2 years spares, PHO completion and starting of 2 years warranty is yet to do so.

The TCAS Project is a complex and high tech project and the decision making is slow and testing and trials take considerable time than normal project. Many of technical innovations are to be repeatedly tried out and fine tuned. Thus, TCAS project, inspite of our best efforts and push is taking time. Therefore, the project could not be completed and revenues realized in a short period. Thus this company's major R&D Project has not yielded much results, but company has made considerable investment. However, this project is expected to yield big revenues in subsequent years.

CMC, has gone very well and payments were much delayed due to lack of funds from Railways. But the overall scenario in the revenue front has been its delayed payments and heavy borrowing from banks has to be resorted too and thus interest burden has to be accepted.

We are a specialized company on Railway sector and Railways had a flat budget this year and no new projects

have been released and thus, even diversification could not be done towards new products.

After review of our company performance, company has identified the following priority objectives and goals for the Next Financial Year:

- a) Company should raise funds to the tune of net of Rs.30.00 crores for early completion of TCAS and ongoing ENR Project needs and to meet other running expenditures.
- b) Take immediate action on receivables from KRCL and realize at least partial payment.
- c) Expediting conciliation and claims against KRCL.
- d) Utilization of H/W technology Park assets for either leasing or start manufacturing in-house.
- e) Diversification to short term projects for obtaining regular cash flows.
- f) Strengthening marketing team.
- g) Strengthening financial team.
- h) Company to attract new talent on S/W, H/W and new innovations.
- i) Company to seek strategic alliance with major MNCs, in the light of 100% FDI in Railways and also PPP Projects.
- j) Raise new debts through mortgaging and disposal of landed properties and invest on revenue yielding projects both in short term and long term basis.

Internal Control Systems and their adequacy

The company has in place adequacy systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance to record and provide reliable financial and operational information, compliance with applicable statutes, safeguarding of assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of corporate policies. The control systems are regularly under review.

The internal Audit process is designed to review the adequacy of internal control checks in the systems and covers all significant areas of the Company's operations such as Software and Hardware delivery, production, accounting and finance, procurement, employee engagement, travel, insurance, processes

in the company. Safeguarding of assets and their protection against unauthorized use are also a part of these exercises.

The company has an Audit Committee, the details of which have been provided in the corporate governance Report. The Audit Committee reviews Audit Reports submitted by the Internal Auditors. Suggestions for the systematic improvements are considered and the Audit Committee follows up on the implementation of corrective action. The Committee also meets the Company's statutory auditors and Internal Auditors to ascertain, inter alia, their views on the adequacy of internal control systems in the Company and keeps the Board of Directors informed of its major observations from time to time.

Material developments in HR/Industrial relations area including number of people employed

The total number of employees as on March 2014 is 271 as against 266 of March 31, 2013.

The company has a good work environment that encourages innovation and meritocracy with a vibrant work ethic that provides its employees with an opportunity to work on new technologies, and enables to leverage talents. As an organization which has to constantly upgrade itself, it has been building competence through training, cross training and skill upgradation.

Cautionary Statement

Statements in the Management's Discussion and Analysis Report, which seek to describe the Company's objectives, projections, estimates, expectations or predictions may be considered to be "forward looking statements" and are stated as required by applicable laws and regulations. Actual results could differ from those expressed or implied. Many factors including global and domestic demand-supply conditions, prices, raw materials availability, technological changes, changes in Government Regulations and policies, tax laws and other statutes may affect the actual results, which can be different from what the Director's envisage in terms of future performance and outlook.

CORPORATE GOVERNANCE REPORT

(As required under Clause 49 of the Listing Agreements entered into with Stock Exchanges)

1. Company's philosophy on Code of Governance.

The Company believes that good corporate governance practices enable the management to direct and control the affairs of the Company in an efficient manner and to achieve the Company's goal of maximizing value for all its stake holders.

The board considers itself as a trustee of its shareholders and acknowledges its responsibilities to the Shareholders for creation and safeguarding shareholders wealth, while upholding the core values of transparency, integrity, honesty and accountability.

The Company's Code of Conduct serves as a guide to the employees on the values, ethics and business principles expected of them.

2. Board of Directors:

- i) The Company elects a Non-Executive Chairman at each Board Meeting. The Board of Directors of the Company consists of qualified persons with professional expertise. The Board comprises of two Executive Directors and Seven Non-executive Directors, of whom three are Independent Directors as on March 31, 2014. Accordingly, the Composition of the Board is in conformity with Clause 49 of the listing agreement entered with Stock Exchanges.
- ii) None of the Directors on the Board is a member in more than 10 committees or Chairman of more than 5 committees as specified in clause 49, across all the Companies in which he is a Director. Necessary disclosures regarding Committee positions have been made by the Directors.
- iii) The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and the number of Directorships and Committee memberships held by them in other companies is given below. Other directorships do not include

alternate directorships, directorships of private limited Companies and companies incorporated outside India. Chairmanship/membership of Board committees includes membership of Audit and Shareholders/ Investor Grievance Committee.

Name	Category	No. of Board Meetings during the year 2013-14		Whether Attended AGM held on 27.09.13	No. of Directorships in other public companies		No. of committee positions held in other public companies	
		Held	Attended		Chairman	Member	Chairman	Member
Venkateswara Raju Lakamraju	Non-Independent-Executive	5	5	Yes	-	-	-	-
Murali Mohan Bandaru	Non-Independent-Executive	5	5	Yes	-	-	-	-
Gopalakrishna Muddusetty	Independent Non-Executive	5	5	No	-	9	4	7
Jyoti Raju	Non-Independent Non-Executive	5	1	No	-	-	-	-
Anji Raju Manthena	Non-Independent Non-Executive	5	2	No	-	-	-	-
Venkata Ratnam Anugolu	Independent Non-Executive	5	1	No	-	1	2	-
Arun Kumar Sanwalka	Independent Non-Executive	5	3	Yes	-	-	-	-
Vinta Janardhana Reddy	Non-Independent Non-Executive	5	2	No	-	-	-	-
Mantena Raju Narasa	Non-Independent Non-Executive	5	1	No	-	-	-	-

- iv) Five (5) Board Meetings were held during the year ended 31st March, 2014 and the gap between any two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows.
- v) 15th April, 2013, 25th May, 2013, 14th August, 2013, 14th November, 2013 and 14th February, 2014.
- vi) None of the Non-Executive Directors have any material pecuniary relationship or transaction with the Company.

3. Audit Committee:

- i. The Audit Committee of the Company during the year under review consisted of Four (4) Directors, including three (3) independent Directors and One (1) Managing Director and the Chairman of the Audit Committee was present at the Board Meeting where Annual accounts have been approved. All the members of the committee are financially literate. Accordingly the composition of the Audit committee is in conformity with clause 49 of the listing Agreement entered with stock exchanges.
- ii. The terms of reference of the Audit Committee are broadly as under:
 - A. Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement reflects a true and fair position and that sufficient and credible information are disclosed.
 - B. Recommending the appointment and removal of the statutory auditors, fixation of audit fees and also approval for payment for any other services.
 - C. Discussion with external auditors before the audit commences, of the nature and scope of audit as well as post audit discussion to ascertain any area of concern.



- D. Reviewing, with the management, the annual financial statements before submission to the board, focusing primarily on:
- Matters required being included in the Director's Responsibility statement to be incorporated in terms of Section 217(2AA) of the Companies Act, 1956.
 - Any changes in accounting policies and practices
 - Major accounting entries based on the exercise of judgment by management
 - Significant adjustments arising out of audit;
 - Compliance with listing and other legal requirements relating to financial statements
 - Disclosure of any related party transactions
 - Qualifications in the draft audit report.
 - Compliance with accounting standards
 - Management discussion and analysis of financial condition and result of operations.
- E. Reviewing the Quarterly Financial Results before submitting the same to the Board's approval
- F. Reviewing, with the management, the performance of external and internal auditors and adequacy of the internal control systems.
- G. Reviewing the adequacy of internal audit function and frequency of internal audit.
- H. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- I. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- The Audit Committee Meetings are usually held at the registered office of the Company and are usually attended by the Managing Director, Finance head, Statutory Auditors and representatives of the internal auditors.
 - The last Annual General Meeting of the Company was held on September 27, 2013.
 - The composition of the Audit Committee as on March 31, 2014 and particulars of meetings attended by the members are as follows:

Name	Category	Number of meetings during the year 2013-14	
		Held	Attended
Venkata Ratnam Anugolu (Appointed on 14/02/2014)	Independent Non-Executive	4	1
Gopalakrishna Muddusetty	Independent Non-Executive	4	4
Arun Kumar Sanwalka	Independent Non-Executive	4	2
Venkateswara Raju Lakamraju	Non-Independent-Executive	4	4

- The necessary quorum was present at all meetings.

4. Remuneration Committee:

1. The Remuneration Committee of the Company consists of two directors, all of whom are independent directors.
2. The broad terms of reference of the Remuneration Committee are as under:
 - a. To review the remuneration and commission / other incentives payable to the Managing and other executive Directors for each financial year.
 - b. Such other matters as the Board may from time to time request the Remuneration Committee to examine and recommend/approve.

Name	Category
Gopalakrishna Muddusetty	Independent Non-Executive
Arun Kumar Sanwalka	Independent Non-Executive

No Meetings of Remuneration Committee were held during the year under review

3. The Company does not have any Employee Stock Option Scheme.
4. Remuneration Policy:

The Company's remuneration policy is driven by the success and performance of the individual employees. The Company follows a compensation policy of fixed pay, allowances & perquisites. Performance of the individuals is measured through the annual appraisal process.

5. Details of Remuneration and other terms of appointment of Directors: for 2013-2014

A) Managing / Whole-time Directors:

The company pays remuneration by way of salary, perquisites and allowance (Fixed component) to its Managing Director / Whole time Directors. They, apart from the fixed component, also eligible for commission as may be determined by Board of directors of the company at the end of each financial year, subject to the overall ceiling limits, stipulated under Section 198 and 309 of the company Act 1956. Annual increments are decided by the remuneration committee within the salary scale approved by the members and are effective April 1, each year.

Compensation paid to Managing Director and Whole time Director during the financial year 2013-14 is follows.

Name	Designation	REMUNERATION (Rs.Lacs)		
		Salary & Benefits	Commission	Total
Col. L. V. Raju (Retd.)	Managing Director	36.00	0.00	36.00
Mr. B. Murali Mohan	Whole time Director	25.20	0.00	25.20

Besides above, the Managing and Whole time Director of the Company are also entitled to Company's contribution to provident Fund and Superannuation Fund or Annuity Fund to the extent, not taxable under the Income Tax Act 1961, Gratuity and encashment of earned leave, as per the rules of the Company.

B. Non- Executive Directors:

The Non-Executive Directors are paid sitting fee at the rate of Rs.10,000/-For each meeting of the Board and Rs.10,000/-for attending each of committee meetings. The Company also reimburses the out of pocket expenses incurred by the Directors for attending meetings.

Sitting fee paid to non executive Directors during Financial Year 2013-14, is as follows.



Name	Sitting fee (Amount in Rs.)
Sri. Gopalakrishna Muddusetty	90,000
Sri. Venkata Ratnam Anugolu	20,000
Sri. Arun Kumar Sanwalka	50,000
Dr. Jyoti Raju	-
Sri. Anji Raju Manthana	10,000
Sri. Vinta Janardhana Reddy	10,000
Sri. Mantena Raju Narasa	10,000

5. Shareholders/Investors Grievance Committee:

The Company has a Shareholders/Investors Grievance Committee of Directors to look into the redressal of complaints of investors such as transfer or credit of shares, non-receipt of dividend/notices/annual reports, etc.

- The Shareholders/investors Grievance Committee of Company consists of two directors, who are all independent Directors.
- The Composition of the shareholder/ investors Grievance Committee is given below.

Name	Category
Sri. M. Gopalakrishna, IAS (Retd)	Independent Non-Executive
Sri. Arun Kumar Sanwalka	Independent Non-Executive

- Name, designation and address of Compliance Officer:

N. Subhash, Company Secretary
Plot No.7, Software Units Layout, Madhapur,
Hyderabad- 500081.

- Details of complaints received and redressed:

Opening Balance	Received during the period 01.04.2013 to 31.03.2014	Resolved during the period 01.04.2013 to 31.03.2014	Closing Balance
Nil	1	1	Nil

6. General Body Meetings

- Details of Last three Annual general Meeting are as follows.

Year	Meeting	Day, Date and Time of the Meeting	Venue
2012-13	21st AGM	Friday, September, 27, 2013 at 3.00 P.M.	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003.
2011-12	20th AGM	Thursday, September 27, 2012 at 3.00 P.M	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003
2010-11	19th AGM	Monday, September 26, 2011 at 2.30 P.M	Hotel Minerva Grand, Sarojini Devi Road, Secunderabad- 500 003

- Postal Ballot:

No Postal Ballot was conducted during the year 2013-14.

- iii. **Special Resolutions:**
No special resolution was passed by the Company in any of its previous three AGMs.
- iv. **Extraordinary General Meeting:**
No Extraordinary General Meeting of the Members was held during the year 2013-14.

7. Disclosures

- i. There are no materially significant related party transactions of the Company which have potential conflict with the interests of the Company at large.
- ii. Details of non-compliance by the Company, penalties, strictures imposed on the Company by the Stock Exchanges or the Securities and Exchange Board of India or any statutory authority, on any matter related to capital markets, during the year ended 31st March, 2014: NIL
- iii. The Company is in compliance with all the mandatory requirements and has fulfilled the non-mandatory requirements as prescribed in Annexure I D to Clause 49 of the Listing Agreement with Stock Exchanges to the extent of setting up a remuneration committee. Please see the para on Remuneration Committee for details.
- iv. **Code of conduct:** The code of conduct as adopted by the Board of Directors is applicable to all directors, senior management and employees above officers' level. The prime purpose of the code is to create an environment wherein all the Board Members and Senior Management of the Company maintain ethical standards and to ensure compliance to the laid down ethical standards. The code is available on the Company's website: www.kernex.in

Declaration as required under Clause 49 of the Listing Agreement:

All the directors and senior management of the Company have affirmed compliance with the Company's code of conduct for the financial year ended March 31, 2014

August 20, 2014
Hyderabad,

Col.L.V. Raju (Retd)
Managing Director

- v. **Compliance:** At every Board Meeting a Statement of Compliance with all Laws and Regulations as certified by the Managing Director is placed for review by the Board. The Board reviews the compliance of all the applicable laws and gives appropriate directions wherever necessary.
- vi. **Risk Management:** The Board regularly discusses the significant business risks identified by the management and the mitigation process being taken up.
- vii. **Public issue proceeds:** The utilization of Public issue proceeds are regularly placed before the Audit committee for review.
- viii. **CEO/ CFO certificates:** The Managing Director has given a Certificate as contemplated in Clause 49 of the listing agreement.
- ix. **Secretarial Audit:** A practicing Company Secretary carried out a secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository services (India) Limited (CDSL) and the total issued and listed capital. The audit confirms that the total issued /paid-up capital of the Company is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

iii. Means of Communication:

The quarterly, half-yearly and annual results of the Company are published in leading newspapers in India which include, the Financial Express, Prajashakti. The results are also displayed on the Company's website www.kernex.in.

kernex.in. Official press releases made by the Company from time to time are also displayed on the website. The Management's Discussion and Analysis is a part of the Company's annual report.

iv. General Shareholder's information:

i) Annual General Meeting

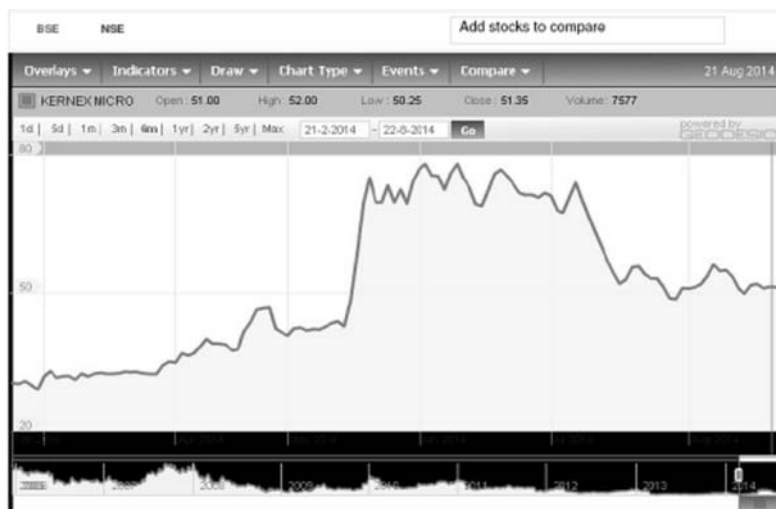
Date	: 27th September 2014
Time	: 3.00P.M
Venue	: Hotel Minerva Grand, Sarojini Devi Road, Secunderabad – 500 003

ii) Financial Calendar

Year ending	: March 31, 2014
AGM	: September 27, 2014
iii) Date of Book Closure	: 26-09-2014 to 27-09-2014
iv) Listing on Stock Exchange	: Bombay Stock Exchange Limited The National Stock Exchange of India Limited
v) Stock Code / Symbol	
Bombay Stock Exchange Limited (Physical & Demat)	: 532686
The National Stock Exchange of India Limited	: Kernex
vi) International Securities Identification	
Number (ISIN) allotted to the Company's Shares	: INE202H01019.
vii) Market Price Data: High, Low (Based on the closing prices) and number of shares traded during each month in the last financial year on the National Stock Exchange of India Limited and the Bombay Stock Exchange, Mumbai:	

Month	Bombay Stock Exchange Limited			National Stock Exchange Limited		
	High (Rs.)	Low (Rs.)	Total No. of Shares Traded	High (Rs.)	Low (Rs.)	Total No. of Shares Traded
Apr-13	37.20	31.00	235891	37.35	30.25	543450
May-13	39.00	33.30	282077	39.00	34.00	679913
June-13	38.00	32.50	146774	37.65	31.05	462805
July-13	38.30	31.90	232928	39.4	31.8	549609
Aug-13	36.90	28.15	354832	36.9	30.00	806404
Sep-13	36.45	33.00	118863	36.00	33.1	293045
Oct-13	40.75	33.55	164020	39.75	34.00	404977
Nov-13	50.00	36.85	444722	50.00	36.85	1212896
Dec-13	53.45	40.25	1328122	53.25	40.6	3401756
Jan -14	52.30	37.55	1177923	52.45	37.5	2982679
Feb -14	40.40	28.80	860134	40.45	29.00	1972081
March-14	36.50	29.80	426003	36.25	29.7	1180859

viii) Performance of the company in comparison to the BSE Sensex



- ix) Registrar and Transfer Agents : Karvy Computershare Private Limited.,
 Name & Address : Karvy Computershare Pvt. Ltd.,
 Plot No. 17 to 24, Vittal Rao Nagar,
 Madhapur, Hyderabad - 500 081
 Tel: 91 40 23440627, Fax: 91 40 23420814,
 E-mail: ksreddy@karvy.com
 Contact Person: Mr. K S Reddy
 (Asst. General Manager)

x) Share Transfer System:

The Company's shares are traded in the stock exchanges compulsorily in Demat form. The Company's Registrar and Transfer agent is the common agency to look after physical and demat share work. The shares lodged for transfer at the registrar are processed and returned to shareholders within the stipulated time.

xi) Shareholding (as on March 31, 2014):

a. Distribution of shareholding as on March 31, 2014.

Category No. of Shares	Holding in Rs.	% to Capital	No. of Accounts	% of Total Accounts
1-5000	20065030	16.05	19732	90.83
5001- 10000	8034710	6.43	1017	4.68
10001- 20000	7753960	6.20	518	2.38
20001- 30000	3894090	3.12	154	0.71
30001- 40000	2732350	2.19	77	0.35
40001- 50000	2019640	1.62	45	0.21
50001- 100000	6365520	5.09	89	0.41
100001& Above	74131250	59.30	91	0.42
GRAND TOTAL	124996550	100.00	21723	100.00

b. Categories of Shareholders as on March 31, 2014

Category	No. of Shareholders	No. of Shares	Percentage
Resident Individuals	20300	5492712	43.942909 %
Foreign Promoters	12	2601756	20.814622 %
Foreign Promoter and Director	6	1042055	8.336670 %
Bodies Corporates	427	1008303	8.066647 %
Non Resident Indians	189	936193	7.489751 %
PAC and Director Relative-Foreign	3	348497	2.788053 %
Foreign Promoter and Director Relative	1	316671	2.533438 %
Promoters & Directors	2	225863	1.806954 %
H U F	675	196317	1.570579 %
Person Acting Concert Foreign	3	118596	0.948794 %
PAC and Director Relative-Indian	3	116385	0.931106 %
Clearing Members	96	70916	0.567344 %
TRUSTS	4	24731	0.197853 %
Banks	2	660	0.005280 %
TOTAL	21723	12499655	100.00

xii. Dematerialization of shares and liquidity:

The company's shares are compulsorily traded in dematerialization form. Equity shares of the Company representing 95.27% of the company's share capital are dematerialized as on March 31, 2014.

xiii. The Company's shares are regularly traded on The National Stock Exchange of India Limited and The Stock Exchange, Mumbai, in electronic form.

As on March 31, 2014 the company did not have any outstanding GDRs / ADRs / Warrants or any convertible instruments

xiv) Manufacture facility Locations : Kernex Microsystems (India) Ltd.
THRUSHNA" Plot No.7,
Software Units Layout
Infocity, Madhapur
Hyderabad - 500 081.

xv) Address of Correspondence : Kernex Microsystems (India) Ltd.
THRUSHNA" Plot No.7,
Software Units Layout
Infocity, Madhapur
Hyderabad - 500 081.

AUDITORS' CERTIFICATE REGARDING CORPORATE GOVERNANCE

To the Members of Kernex Microsystems (India) Limited,
Hyderabad.

We have examined the compliance of conditions of Corporate Governance by Kernex Microsystems (India) Limited for the year ended on 31st March, 2014, as stipulated in Clause 49 of the Listing Agreement of the company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination has been limited to a review of the procedures and implementations thereof adopted by the company for ensuring compliance with the conditions of the Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, and based on the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company

For GMK ASSOCIATES.,
Chartered Accountants
Firm Regn No. 006945S

G Satyanarayana Murty
Partner
Membership No: 29919

Place: Hyderabad
Date: 20th August, 2014

AUDITORS' REPORT

To
The Members of
KERNEX MICROSYSTEMS (INDIA) LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of KERNEX MICROSYSTEMS (INDIA) LIMITED ("the Company"), which comprise the Balance Sheet as at March 31, 2014 and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies act, 1956 ("the Act") read with the General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013 and in accordance with the accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014
- (b) In the case of Statement of Profit and Loss, of the profit for the year ended on that date.
- (c) In the case of the Cash Flow Statement, of the Cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

- 1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
- 2. As required by section 227(3) of the Act, we report that:
 - a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b. In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
 - c. The Balance Sheet and Statement of Profit and Loss dealt with by this Report are in agreement with the books of account.

- d. In our opinion, the Balance Sheet, Statement of Profit and Loss comply with the Accounting Standards notified under the Act read with the General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013.
- e. On the basis of written representations received from the directors as on 31st March 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31st, 2014 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For GMK Associates
Chartered Accountants
Firm Regn No. 006945S

(G. Satyanarayana Murty)
Partner
Membership No. 029919

Place: Hyderabad
Date: 24.05.2014

Annexure to the Auditor's report of even date to the Members of Kernex Microsystems (India) Limited

- (I) (a) The Company's fixed assets register showing full particulars including Quantitative details and the situation of its fixed assets is to be updated.
- (b) As per the explanations given to us by the management, physical verification of Fixed Assets has been carried out during the year and no material discrepancies are noticed.
- (c) None of the major fixed assets of the Company are disposed off during the year.
- (II) (a) The Inventory has been physically verified by the management at reasonable intervals.
- (b) In our opinion and according to the information and explanations given to us, the procedures for physical verification of inventory followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business;
- (c) On the basis of our examination of the inventory records, in our opinion, the company has maintained proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- (III) (a) During the year, the Company has not granted any loans, secured or unsecured, to the companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Hence Clauses (iii) (b), (c) & (d) of the Order are not applicable.
- (b) The Company has taken short term loans of Rs 485.85 Lakhs from 4 Directors during the year and the maximum and outstanding balance is Rs 485.85 Lakhs from other parties covered in the register maintained under Section 301 of the Companies Act, 1956. The Terms and conditions are not prejudicial to the interest of the company.
- (IV) In our opinion and according to the information and explanations provided to us there are adequate

internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control.

- (V) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there have been no transactions that need to be entered into the register maintained under Section 301;
- (VI) The Company has not accepted any deposits from the public during the year under review falls under section 58A and 58AA of the Companies Act 1956;
- (VII) The Company has an in-house internal audit department, which, in our opinion the scope is commensurate with the size and nature of the business of the company;
- (VIII) We have broadly reviewed the books of account maintained by the Company in respect of the products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- (IX) (a) There have been delays in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax and Service Tax with appropriate authorities during the year. According to the records, information and explanations provided to us, there are undisputed amounts payable in respect of Provident Fund Rs 28,35,064/- Employees State Insurance Rs. 5,78,862, TDS Rs 52,57,692/-, and Corporate Dividend Tax Rs 20,27,757/- were outstanding at the yearend for a period of more than six months from the date they become payable ;
- (b) According to the information and explanations provided to us, particulars of out standing dues of Income tax and Sales tax have not been deposited on account of any dispute are given below:

Name of Statute	Nature of the Dues	Period to which the amounts relates	Amount (Rupees in Lakhs)	Forum where dispute is pending
Income Tax Act	Income Tax	A.Y 1998-99	8.00	High Court
APGST	Sales Tax	A.Y 2003-04	4.13	STAT

- (X) The Company does not have any accumulated losses at the end of the financial year and has not incurred any cash loss during the year covered by our audit and also in the immediately preceding financial year.
- (XI) Based on our audit procedures and on the information and explanations given by the management, the Company has not defaulted in repayment of dues to any financial institution or bank;
- (XII) Based on our examination and according to the information and explanations given to us , the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities ;
- (XIII) In our opinion, the Company is not a Chit Fund / Nidhi / Mutual Benefit Fund/ Society and Clause 4 (xiii) of the Order are not applicable to this company.
- (XIV) In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of Clause 4(xiv) of the Order not applicable to the Company.
- (XV) On the basis of our examination of the books of accounts and the information and explanation given to us the Company has not given any guarantee for loans by others from bank or financial institutions ;
- (XVI) According to the information and explanations given to us, the company has not availed any term loans during the year under review.

- (XVII) On the basis of our examinations of the books of accounts and the information and explanation given to us, in our opinion, the funds raised on short-term basis have not been used for long-term investment.
- (XVIII) During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Act ;
- (XIX) The Company has not made any issue of debentures during the year;
- (XX) During the year covered by our audit report the Company has not raised any money by way of Public Issue.
- (XXI) Based on the audit procedures performed and information and explanations given to us by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For GMK Associates
Chartered Accountants
Firm Regn No. 006945S

(G. Satyanarayana Murty)
Partner
Membership No. 029919

Place: Hyderabad
Date: 24.05.2014

Balance Sheet as at 31st March, 2014

Rupees

Particulars	Note No.	As at 31st March 2014	As at 31st March 2013
A EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2	124,996,550	124,996,550
Reserves and surplus	3	1,165,113,799	1,176,107,596
		1,290,110,349	1,301,104,146
Non-current liabilities			
Long-term borrowings	4	-	-
Deferred tax liabilities (net)	23.13	-	3,379,179
Other long-term liabilities		-	-
Long-term provisions		-	-
		-	3,379,179
Current liabilities			
Short-term borrowings	5	207,878,558	163,492,282
Trade payables	6	123,393,244	83,659,959
Other current liabilities	7	77,947,049	68,320,948
Short-term provisions	8	2,191,050	7,814,416
		411,409,901	323,287,605
TOTAL		1,701,520,250	1,627,770,930
B ASSETS			
Non-Current Assets			
Fixed Assets			
Tangible Assets	9	574,715,875	602,001,721
Intangible Assets		1,512,334	2,773,048
Capital work-in-progress		97,440,499	97,440,499
		673,668,708	702,215,268
Non-current investments	10	11,830,950	11,830,950
Deferred tax assets (net)	23.13	613,787	-
Long-term loans and advances	11	101,941,452	124,958,723
Total non-current assets		788,054,897	839,004,941
Current assets			
Inventories	12	214,763,610	157,019,422
Trade receivables	13	550,718,392	467,723,105
Cash and cash equivalents	14	67,405,564	83,955,039
Short-term loans and advances	15	68,048,668	72,602,914
Other current assets	16	12,529,119	7,465,509
Total current assets		913,465,353	788,765,989
TOTAL		1,701,520,250	1,627,770,930
Significant Accounting Policies	1		

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

For GMK ASSOCIATES

Chartered Accountants

Firm Reg. # 006945S

(G. Satyanarayana Murty)

Partner

Membership # 029919

Place : Hyderabad.

Date : 24.05.2014

B. Murali Mohan

Technical Director

Col. L.V. Raju (Retd.)

Managing Director

K. Ramanjaneyulu

(Company Secretary)

Statement of Profit and Loss for the year ended 31st March, 2014

Rupees

Particulars	Note No.	As at 31st March 2014	For the year ended 31st March, 2013
1 Revenue from operations (gross)	17	298,298,676	283,100,541
Less: Excise duty	17	-	778,319
Revenue from operations (net)		298,298,676	282,322,222
2 Other income	18	32,917,762	32,104,211
3 Total revenue (1+2)		331,216,438	314,426,433
4 Expenses			
(a) Cost of materials consumed	19.A	23,270,955	23,646,532
(b) Purchases of stock-in-trade	19.B	29,223,362	14,259,514
(c) Changes in inventories of finished goods, work-in-progress and stock-in-trade	19.C	(39,777,359)	2,822,955
(d) Employee benefits expense	20	93,650,824	78,101,029
(e) Finance costs	21	30,884,263	38,406,967
(f) Depreciation and amortisation expense	9	40,318,450	27,595,598
(g) Other expenses	22	174,682,990	112,109,131
Total expenses		352,253,485	296,941,727
5 Profit / (Loss) before tax (3 - 4)		(21,037,047)	17,484,706
6 Tax expenses			
Current tax			3,758,001
(Less): MAT credit (where applicable)			-
(b) Current tax expense relating to prior years			
(c) Net current tax expense		-	3,758,001
Deferred tax	23.13	(3,992,966)	7,259,018
		(3,992,966)	11,017,019
7 Profit / (Loss) for the year (5 +6)		(17,044,081)	6,467,688
8 Earnings per share (of ₹ 10/- each):			
(a) Basic		(1.36)	0.52
(b) Diluted		(1.36)	0.52
Significant Accounting Policies	1		

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

For GMK ASSOCIATESChartered Accountants
Firm Reg. # 006945S**(G. Satyanarayana Murty)**Partner
Membership # 029919Place : Hyderabad.
Date : 24.05.2014**B. Murali Mohan**
Technical Director**Col. L.V. Raju (Retd.)**
Managing Director**K. Ramanjaneyulu**
(Company Secretary)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2014

Rupees

Particulars	For the year ended 31 March, 2014	For the year ended 31 March, 2013
A. Cash flow from operating activities		
Net Profit / (Loss) before extraordinary items and tax	(21,037,047)	17,484,706
Adjustments for:		
Depreciation and amortisation	40,318,450	27,595,598
Finance costs	30,884,263	38,406,967
Interest income	(7,901,055)	(11,575,873)
	63,301,658	54,426,692
Operating profit / (loss) before working capital changes	42,264,611	71,911,398
Changes in working capital:		
<i>Adjustments for (increase) / decrease in operating assets:</i>		
Inventories	(57,744,188)	9,586,570
Trade receivables	(82,995,287)	(41,790,695)
Short-term loans and advances	4,554,246	15,823,839
Long-term loans and advances	23,017,271	(8,199,144)
Other current assets	(5,063,610)	5,501,568
Foreign currency Reserve	6,050,284	
<i>Adjustments for increase / (decrease) in operating liabilities:</i>		
Trade payables	39,733,285	9,704,620
Other current liabilities	9,626,101	(28,145,720)
Other long-term liabilities	-	
Long-term provisions	-	
	(62,821,899)	(37,518,962)
Cash generated from operations	(20,557,288)	34,392,436
Net cash flow from / (used in) operating activities (A)	(20,557,288)	34,392,436
B. Cash flow from investing activities		
Capital expenditure on fixed assets, including capital advances	(11,771,892)	(12,798,105)
Interest received	7,901,055	11,575,873
Net income tax (paid) / refunds	(5,623,363)	553,333
	(9,494,200)	(668,899)
Net cash flow from / (used in) investing activities (B)		
C. Cash flow from financing activities		
Proceeds from issue of equity shares	-	
Proceeds from long-term borrowings	-	
Repayment of long-term borrowings	-	

Rupees

Particulars	For the year ended 31 March, 2014	For the year ended 31 March, 2013
Net increase / (decrease) in working capital borrowings	44,386,276	(15,523,422)
Finance cost	(30,884,263)	(38,406,967)
Dividends paid	-	(12,499,655)
Tax on dividend	-	(2,076,036)
	13,502,013	(68,506,080)
Net cash flow from / (used in) financing activities (C)	13,502,013	
Net increase / (decrease) in Cash and cash equivalents (A+B+C)	(16,549,475)	(34,782,543)
Cash and cash equivalents at the beginning of the year	83,955,039	118,737,582
Effect of exchange differences on restatement of foreign currency Cash and cash equivalents	-	-
Cash and cash equivalents at the end of the year	67,405,564	83,955,039
Reconciliation of Cash and cash equivalents with the Balance Sheet:		
Cash and cash equivalents as per Balance Sheet	67,405,564	83,955,039
Cash and cash equivalents at the end of the year *	67,405,564	-
*Comprises:		
(a) Cash on hand	132,377	68,197
(b) Balances with banks		
(i) In current accounts	459,932	1,010,126
(ii) In EEFC accounts	41,781	37,519
(iii) In deposit accounts	35,674,476	59,603,476
(iv) In earmarked accounts	31,096,998	23,235,721
	67,405,564	83,955,039

In terms of our report attached.

For and on behalf of the Board of Directors

For GMK ASSOCIATES

Chartered Accountants
Firm Reg. # 006945S

(G. Satyanarayana Murty)

Partner
Membership # 029919

Place : Hyderabad.
Date : 24.05.2014

B. Murali Mohan
Technical Director

Col. L.V. Raju (Retd.)
Managing Director

K. Ramanjaneyulu
(Company Secretary)

Place : Hyderabad.
Date : 24.5.2014

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 2 SHARE CAPITAL

Rupees

Particulars	As at 31 March, 2014		As at 31 March, 2013	
	Number of shares	₹	Number of shares	₹
(a) Authorised (Equity shares of ₹ 10/- each with voting rights)	15,000,000	150,000,000	15,000,000	150,000,000
(b) Issued, Subscribed & Paid up Capital	12,499,655	124,996,550	12,499,655	124,996,550
(Equity shares of ₹ 10/- each with voting rights)				
(Company has only one class of Shares i.e, Equity Shares with Voting rights)	12,499,655	124,996,550	12,499,655	124,996,550

2.2 Reconciliation of the number of shares and amount outstanding at the beginning and at the end of the reporting period:

Particulars	Opening Balance	Fresh issue	Closing Balance
Equity shares with voting rights			
Year ended 31st March, 2013			
- Number of shares	12,499,655	-	12,499,655
- Amount (₹)	124,996,550	-	124,996,550
Year ended 31 March, 2014			
- Number of shares	12,499,655	-	12,499,655
- Amount (₹)	124,996,550	-	124,996,550

2.3. Details of shares held by each shareholder holding more than 5% shares

Name of Shareholder	As at 31st March, 2014		As at 31st March, 2013	
	Number of Shares held	% holding in that class of shares	Number of Shares held	% holding in that class of shares
Equity Shares with voting rights				
1. Dr Raju Narsa Manthena	854,633	6.84	854,633	6.84
2. Seetharamaraju Manthena	721,992	5.78	701,894	5.62
3. Sreelakshmi Manthena	640,398	5.12	-	-

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 3 RESERVES AND SURPLUS

Rupees

Particulars	As at 31st March, 2014	As at 31st March, 2013
(a) General reserve		
Opening balance	61,213,631	61,213,631
Add: Additions during the year	-	-
Less: Utilised / transferred during the year	-	-
Closing balance	<u>61,213,631</u>	<u>61,213,631</u>
(b) Securities premium account		
Opening balance	917,219,545	917,219,545
Add : Premium on shares issued during the year	-	-
Less : Utilised during the year :	-	-
Issuing bonus shares	-	-
Writing off preliminary expenses	-	-
Writing off shares / debentures issue expenses	-	-
Premium on redemption of redeemable preference shares / debentures	-	-
Buy back of shares	-	-
Closing balance	<u>917,219,545</u>	<u>917,219,545</u>
(c) Foreign currency translation reserve		
Opening balance		
Add / (Less): Effect of foreign exchange rate variations during the year	6,050,284	-
Add / (Less): Transferred to Statement of Profit and Loss on disposal of the net investment in non-integral foreign operations	-	-
Closing balance	<u>6,050,284</u>	<u>-</u>
(d) Surplus / (Deficit) in Statement of Profit and Loss		
Opening balance	197,674,420	191,206,732
Add: Profit / (Loss) for the year	(17,044,081)	6,467,688
Amounts transferred from:		
General reserve	-	-
Other reserves	-	-
Less: Appropriations		
Dividends proposed to be distributed to equity shareholders (₹ 1 per share)	-	-
Dividends proposed to be distributed to preference shareholders (₹ per share)	-	-
Tax on dividend	-	-
Transferred to:		
General reserve	-	-
Capital redemption reserve	-	-
Debenture redemption reserve	-	-
Other reserves (give details)	-	-
Closing balance	<u>180,630,339</u>	<u>197,674,420</u>
Total	<u>1,165,113,799</u>	<u>1,176,107,596</u>

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 4 LONG-TERM BORROWINGS

Rupees

Particulars	As at 31 March, 2014	As at 31 March, 2013
Secured	-	-
Unsecured	-	-
Total	-	-

(i) For the current maturities of long-term borrowings, refer items (a) in Note # 7 Other current liabilities.

NOTE # 5 SHORT-TERM BORROWINGS

Particulars	As at 31st March, 2014	As at 31 March, 2013
(a) Loans repayable on demand (Working Capital)		
Secured		
State Bank of Hyderabad	149,587,501	152,638,995
(b) Other loans and advances		
Unsecured	49,530,127	-
Inter Corporate Deposits	8,760,930	10,853,287
Total	207,878,558	163,492,282

(i) Details of security for the secured short-term borrowings:

Particulars	Nature of Security	As at 31st March, 2014	As at 31st March, 2013
Loans repayable on demand from banks:			
State Bank of Hyderabad	Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park and lands situated at Basanthpur (Nalgonda Dist and Amangal (Mahaboobnagar Dist)	149,587,501	152,638,995
Total From Banks		149,587,501	152,638,995

(ii) Details of short-term borrowings guaranteed by some of the directors or others :

Particulars	As at 31st March, 2014	As at 31 March, 2013
Loans repayable on demand from banks- Personal gurantee of the Managing Director	149,587,501	152,638,995
Inter Corporate Deposits are Secured by the pledge of Directors shares in the Company	8,760,930	10,853,287

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 6 TRADE PAYABLES

Rupees

Particulars	As at 31st March, 2014	As at 31 March, 2013
Trade payables:		
Acceptances	-	-
Other than Acceptances	123,393,244	83,659,959
Total	123,393,244	83,659,959

NOTE # 7 OTHER CURRENT LIABILITIES

(a) Current maturities of finance lease obligations		-
(b) Interest accrued and due on borrowings	1,892,905	1,003,402
(c) Unpaid dividends	487,532	488,731
(d) Application money received for allotment of securities and due for refund	193,300	193,300
(e) Statutory remittances :		
Contribution to ESI	2,219,373	1,211,512
Contribution to PF	5,215,279	1,659,491
Professional Tax Payable	133,414	47,650
Excise Duty Payable	531,388	531,388
Service Tax Payable	19,988,924	11,175,215
TDS Payable	5,195,422	4,745,489
Works Contract Tax	968,886	572,895
(f) Payables on purchase of fixed assets	2,869,751	3,003,668
(g) Interest accrued on others	486,476	486,476
(h) Advances from customers	37,764,399	43,201,731
Total	77,947,049	68,320,948

NOTE # 8 SHORT-TERM PROVISIONS

(a) Provision - Others:		
(i) Provision for tax	163,293	5,786,659
(ii) Proposed dividends	-	-
(iii) Provision for tax on Proposed dividends	2,027,757	2,027,757
Total	2,191,050	7,814,416



NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 9 FIXED ASSETS

Rupees

	Gross block				Accumulated depreciation and impairment				Net block	
	Balance as at 1st April, 2013	Additions	Del./Adj	Balance as at 31st March, 2014	Balance as at 1st April, 2013	Depreciation expense for the year	Adjustments	Balance as at 31st March, 2014	Balance as at 31st March, 2013	Balance as at 31st March, 2014
A. Tangible assets	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹
(a) Land & Land Development Freehold	242,929,496	11,771,892	-	254,701,388	-	-	-	254,701,388	242,929,496	
(b) Buildings Own use	343,486,963	-	-	343,486,963	43,192,349	30,029,462	-	73,221,811	300,294,614	
(c) Plant and Equipment Owned	138,162,267	-	-	138,162,267	90,010,388	7,134,084	-	97,144,472	48,151,879	
(d) Furniture and Fixtures Owned	12,025,718	-	-	12,025,718	6,050,140	1,081,578	-	7,131,718	5,975,578	
(e) Vehicles Owned	7,846,548	-	-	7,846,548	6,461,577	358,540	-	6,820,117	1,384,971	
(f) Office equipment Owned	9,531,002	-	-	9,531,002	6,265,819	454,075	-	6,719,894	3,265,183	
Total	753,981,994	11,771,892	-	765,753,886	151,980,273	39,057,739	-	191,038,012	602,001,721	
Previous year	425,687,846	349,722,793	21,428,645	753,981,994	146,794,014	26,614,904	21,428,645	151,980,273	278,893,832	
Capital WIP	97,440,499	-	-	97,440,499	-	-	-	-	97,440,499	

	Gross block				Accumulated depreciation and impairment				Net block	
	Balance as at 1st April, 2013	Additions	Del./Adj	Balance as at 31st March, 2014	Balance as at 1st April, 2013	Depreciation expense for the year	Adjustments	Balance as at 31st March, 2014	Balance as at 31st March, 2013	Balance as at 31st March, 2013
B. Intangible assets	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹
Computer Software	3,753,742	-	-	3,753,742	980,694	1,260,713	-	2,241,407	1,512,334	2,773,048
Previous year	-	3,753,742	-	3,753,742	-	980,694	-	980,694	2,773,048	-

NOTES FORMING PART OF THE FINANCIAL STATEMENTS**NOTE # 10 NON-CURRENT INVESTMENTS**

Rupees

Particulars	As at 31 March 2014			As at 31 March 2013		
	Quoted #	Unquoted #	Total	Quoted #	Unquoted #	Total
	₹	₹	₹	₹	₹	₹
Investments (At cost):						
Other investments						
(a) Investment in Equity Shares of Subsidiaries						
Avant-Garde Infosystems inc.USA (100% subsidiary)		11,830,950	11,830,950	11,830,950		11,830,950
35,80,000 Equity shares of US\$0.02 each and 17,99,240 Equity Shares of US\$ 0.10 each (Common Shares at no Par Value)						
Total		- 11,830,950	11,830,950	- 11,830,950		11,830,950
Aggregate amount of unquoted investments			11,830,950			11,830,950

NOTE # 11 LONG-TERM LOANS AND ADVANCES

Particulars	As at 31st March, 2014	As at 31st March, 2013
(a) Capital advances		
Unsecured, considered good	48,899,023	81,082,030
(b) Security deposits		
Unsecured, considered good	3,230,338	2,959,188
(c) Loans and advances to related parties		
Unsecured, considered good-Avant-Garde info systems	35,894,585	26,999,999
(d) MAT credit entitlement # - Unsecured, considered good	13,917,506	13,917,506
Total	101,941,452	124,958,723

NOTE # 12 INVENTORIES

(At lower of cost and net realisable value)

(a) Raw materials	101,418,310	44,577,028
(b) Work-in-progress(refer note(i) below)	113,345,300	112,442,394
Total	214,763,610	157,019,422

Note

(i) Work in Progress Comprises		
ACDs	97,945,575	103,159,790
Service Contracts-ENR	15,399,725	9,282,604
	113,345,300	112,442,394

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 13 TRADE RECEIVABLES

Rupees

Particulars	As at 31st March, 2014	As at 31st March, 2013
Trade receivables outstanding for a period exceeding six months from the date they were due for payment		
Unsecured, considered good	418,821,355	351,957,886
Doubtful	-	-
Other Trade receivables		
Unsecured, considered good	131,897,037	115,765,219
Total	550,718,392	467,723,105

NOTE # 14 CASH AND CASH EQUIVALENTS

(a) Cash on hand	132,377	68,197
(b) Balances with banks		
(i) In current accounts	459,932	1,010,126
(ii) In EEFC accounts	41,781	37,519
(iii) In deposit accounts (Refer Note (i) below)	35,674,476	59,603,476
(iv) In earmarked accounts		
- Unpaid dividend accounts	504,227	505,426
- Share application money received for allotment of securities and due for refund	193,300	193,300
- Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below)	26,039,213	19,016,414
- Escrow accounts (Refer Note (iii) below)	4,360,258	3,520,581
Total	67,405,564	83,955,039

Of the above, the balances that meet the definition of Cash and cash equivalents as per AS 3 Cash Flow Statements is :

67,405,564 83,955,039

Notes:

- Balances with banks include deposits amounting to ₹ NIL (As at 31 March, 2013 ₹ NIL) and margin monies amounting to ₹ NIL (As at 31 March, 2013 ₹ NIL) which have an original maturity of more than 12 months.
- Balances with banks - Other earmarked accounts (Escrow A/c) include ₹ NIL (As at 31 March, 2013 ₹ NIL) which have restriction on repatriation.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 15 SHORT-TERM LOANS AND ADVANCES

Rupees

Particulars	As at 31st March, 2014	As at 31 March, 2013
	₹	₹
(a) Security deposits		
Unsecured, considered good	289,076	279,472
(b) Loans and advances to employees		
Unsecured, considered good	-	-
(c) Prepaid expenses - Unsecured, considered good	1,602,853	1,813,047
(d) Balances with government authorities		
Unsecured, considered good	9,893,287	13,542,348
(e) Advances to Suppliers and Services		
Unsecured, considered good	56,263,452	56,968,047
Total	68,048,668	72,602,914
NOTE # 16 OTHER CURRENT ASSETS		
(a) Accruals		
Interest accrued on deposits	2,061,143	2,875,430
(b) Others		
(i) Rent Receivables	10,467,976	4,590,079
Total	12,529,119	7,465,509

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 17 REVENUE FROM OPERATIONS

Rupees

Particulars	For the year ended 31 March, 2014	For the year ended 31 March, 2013
	₹	₹
(a) Sale of products (Refer Note (i) below)	32,971,708	17,645,135
(b) Sale of services (Refer Note (ii) below)	265,326,968	265,455,406
	298,298,676	283,100,541
Less:		
(c) Excise duty	-	778,319
Total	298,298,676	282,322,222
Note		
(i) Sale of products comprises :		
<i>Manufactured goods</i>		
Others	124,330	1,462,872
Total - Sale of manufactured goods	124,330	1,462,872
<i>Traded goods</i>		
M S Tubular Structures	32,847,378	16,182,263
Others	-	-
Total - Sale of Traded goods	32,847,378	16,182,263
Total - Sale of products	32,971,708	17,645,135
(ii) Sale of services comprises		
Software Services	21,048,199	47,769,021
Maintenance Contracts	131,856,185	134,343,462
Service Contracts-Egypt	102,244,678	78,494,589
Others	10,177,906	4,848,334
Total - Sale of services	265,326,968	265,455,406

NOTES FORMING PART OF THE FINANCIAL STATEMENTS**NOTE # 18 OTHER INCOME**

Rupees

Particulars	For the year ended 31 March, 2014 ₹	For the year ended 31 March, 2013 ₹
(a) Interest income (Refer Note (i) below)	7,901,055	11,575,873
(b) Net gain on foreign currency transactions and translation (other than considered as finance cost)	16,536,762	11,660,401
(c) Other non-operating income (net of expenses directly attributable to such income) (Refer Note (ii) below)	8,479,945	8,867,937
Total	32,917,762	32,104,211
(i) Interest income comprises:		
Interest from banks on:		
Deposits	5,485,829	7,365,843
Others	243,306	14,110
Interest on advances given to Subsidiaries	2,171,920	1,794,870
Interest on income tax refund	-	2,401,050
Total - Interest income	7,901,055	11,575,873
(ii) Other non-operating income comprises:		
Rental Income (inclusive of Servicetax collected)	8,100,045	7,830,373
Other Misc. Income	379,900	1,037,564
Total - Other non-operating income	8,479,945	8,867,937

NOTE # 19.A COST OF MATERIALS CONSUMED

Opening stock	83,451,481	51,340,643
Add: Purchases	41,237,784	16,882,917
	124,689,265	68,223,560
Less: Closing stock	101,418,310	44,577,028
Cost of material consumed	23,270,955	23,646,532
Material consumed comprises:		
Electronic Components	23,270,955	23,646,532
Total	23,270,955	23,646,532

NOTE # 19.B PURCHASE OF TRADED GOODS

Others	29,223,362	14,259,514
Total	29,223,362	14,259,514

NOTE # 19.C CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS AND STOCK-IN-TRADE

Inventories at the end of the year:		
Work-in-progress	113,345,300	112,442,394
	113,345,300	112,442,394
Inventories at the beginning of the year:		
Work-in-progress - *	73,567,941	115,265,349
	73,567,941	115,265,349
Net (increase) / decrease	(39,777,359)	2,822,955

*An amount of Rs.3,88,74,453 was transferred from WIP to raw materials for maintenance purpose.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

NOTE # 20 EMPLOYEE BENEFITS EXPENSE

Particulars	For the year ended 31 March, 2014	Rupees For the year ended 31 March, 2013
	₹	₹
Salaries and wages	83,239,486	67,605,357
Contributions to provident and other funds (Refer Note 23.9)	3,390,473	3,381,717
Directors Remuneration	6,120,000	6,120,000
Staff welfare expenses	900,865	993,955
Total	93,650,824	78,101,029

NOTE # 21 FINANCE COSTS

(a) Interest expense on:		
(i) Borrowings	21,952,855	24,545,506
(b) Other borrowing costs	8,850,280	13,861,461
(c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost)	81,128	-
Total	30,884,263	38,406,967

NOTE # 22 OTHER EXPENSES

Project Execution Expenses	128,736,548	76,241,595
Sales Tax Paid	1,568,353	1,114,340
Service Tax Paid	13,824,669	9,185,178
Repairs and maintenance - Others	4,993,994	3,170,213
Insurance	476,385	531,308
Rates and taxes	4,212,066	3,143,488
Postate, Telephone and Courier	1,153,145	1,235,076
Travelling and conveyance	2,458,362	2,456,916
Directors Sitting Fee	220,000	270,000
Printing and stationery	401,575	446,263
Freight	2,416	1,270
Business promotion	821,251	1,074,058
Professional & Consultancy Fees	8,127,445	1,806,567
Payments to auditors (Refer Note (i) below)	610,950	613,960
Books & Periodicals	8,215	5,100
Security Charges	1,685,745	1,554,393
Electricity Charges	4,021,478	3,449,198
Bad trade debts written off	338,549	5,286,840
General Expenses	1,021,844	523,369
Total	174,682,990	112,109,131
(i) Payments to the auditors comprises (net of service tax input credit, where applicable):		
As auditors - statutory audit	600,000	600,000
Reimbursement of expenses	10,950	13,960
For other services	-	-
Total	610,950	613,960

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

(₹ in Lakhs)

Note	Particulars	As at 31st March, 2014	As at 31st March, 2013
23.1 CONTINGENCIES			
(i) Contingent liabilities			
(a)	Claims against the company not acknowledged as a debt, in respect of Sales Tax for the year 2002-03 for which the Company appeal is pending before STAT	4.13	4.13
(b)	Bank Guarantees Outstanding	1,689.72	1,384.61
(c)	Income Tax (before High Court of A.P.)	8.00	8.00
(ii) Commitments			
	Estimated amount of contracts remaining to be executed on capital account and not provided for		
	Tangible assets	-	54.96
	Intangible assets	-	-
23.2 DISCLOSURES REQUIRED UNDER SECTION 22 OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006			
	Particulars	As at 31st March, 2014	As at 31st March, 2013
	Principal amount remaining unpaid to suppliers as at the end of the accounting year	1.50	1.50
	Dues to Micro and Small Enterprises have been determined to the extent such parties have been identified on the basis of information collected by the Management		
23.3 DISCLOSURE AS PER CLAUSE 32 OF THE LISTING AGREEMENTS WITH THE STOCK EXCHANGES			
	Loans and Advances in the nature of Advances given to Subsidiaries, associates and others		
	Name of the Party	Relationship	Amount outstanding as at 31st March, 2013
	Avant-Garde info systems	Subsidiary	357.00
	(Previous Year)		(270.00)
23.4 VALUE OF IMPORTS CALCULATED ON CIF BASIS :			
	Raw materials	45.09	4.82
	Spare parts	-	-
	Capital goods	-	32.04
23.5 EXPENDITURE IN FOREIGN CURRENCY :			
	Travelling & Other Expenses	31.50	32.37
	Loans to 100% Subsidiary	-	-
	Consultancy Fees	-	-
	Egypt Branch	284.79	68.27

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

23.6 DETAILS OF CONSUMPTION OF IMPORTED AND INDIGENOUS ITEMS

(₹ in Lakhs)

	For the year ended 31 March, 2014	
	₹	%
Imported		
Raw materials	99.62	43%
(Previous Year)	23.62	10%
Sub Total - Imported	99.62	43%
(Previous Year)	23.62	10%
Indigenous		
Raw materials	133.09	57%
(Previous Year)	212.84	90%
Sub Total - Indigenous	133.09	57%
(Previous Year)	212.84	90%
Grand Total	232.71	100%
(Previous Year)	236.46	100%

23.7 EARNINGS IN FOREIGN EXCHANGE :

Export of goods calculated on FOB basis and service income	1,588.72	784.94
Interest Earned on Advance Given to Subsidiary	19.86	17.95

23.8 AMOUNTS REMITTED IN FOREIGN CURRENCY DURING THE YEAR ON ACCOUNT OF DIVIDEND :

Amount of Dividend remitted in Foreign Currency	-	578,063
Total number of Non-resident shareholders (To whom the dividends were remitted in foreign currency)	-	27
Total number of shares held by them on which dividend was due	-	578,063
Financial Year to which the dividend relates	-	2011-12

23.9 DISCLOSURES UNDER ACCOUNTING STANDARD - 15

Employee benefit plans	-	-
------------------------	---	---

23.9.a Defined contribution plans

The Company makes Provident Fund contributions to defined contribution plans for qualifying employees. Under the Schemes, the Company is required to contribute a specified percentage of the payroll costs to fund the benefits. The Company recognized ₹ 27.71 Lakhs (Year ended 31 March, 2013 ₹ 22.01 lakhs) for Provident Fund contributions in the Statement of Profit and Loss. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes.

23.9.b Defined benefit plans

- Leave Encashment* : The Company does not have any scheme for Leave Encashment
- Gratuity* : Gratuity benefit is applicable to all the permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement. The scheme takes into account each completed year of service or part there of in excess of 6 months. Annual Contribution to the employee's Gratuity fund, Established with LIC of India(LIC) are determined based on an actuarial valuation made by the LIC as at the year end.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Rupees

The following table sets out the funded status of the defined benefit schemes and the amount recognized in the financial statements:

Particulars	Year ended 31 March, 2014 Gratuity	Year ended 31 March, 2013 Gratuity
Components of employer expense		
Current service cost	-	76,800
Total expense recognized in the Statement of Profit and Loss	-	76,800
Actual contribution and benefit payments for year		
Actual benefit payments	796,388	1,397,625
Actual contributions	-	-

23.10 DISCLOSURES UNDER ACCOUNTING STANDARD - 17

Segment information

Since the Company has no reportable Segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.

**23.11 DISCLOSURES UNDER ACCOUNTING STANDARD - 18
RELATED PARTY TRANSACTIONS****23.11.a Details of related parties:**

Description of relationship	Names of related parties
Subsidiaries	Avant- Garde Info systems Inc, USA (100% Wholly Owned Subsidiary)
Key Management Personnel (KMP)	Col. L.V Raju(retd) - Managing Director & B Murali Mohan- Whole Time Director

Note: Related parties have been identified by the Management.

23.11.b Details of related party transactions during the year ended 31st March, 2014 and balances outstanding as at 31st March, 2014:

₹ in lakhs

	Subsidiaries	KMP	Total
Receiving of services -- Directors remuneration	-	61.20	61.20
(Previous Year)	-	(61.20)	(61.20)
Finance --Interest receivable on USL	19.85	-	19.85
(Previous Year)	(17.95)	-	(17.95)
Finance --USL Given	-	-	-
(Previous Year)	-	-	-
Balances outstanding at the end of the year			
Loans and advances (Including Interest on Working Capital)	357.00	-	357.00
(Previous Year)	(270.00)	-	(270.00)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Rupees

23.12 DISCLOSURES UNDER ACCOUNTING STANDARD - 20

Particulars	For the year ended 31 March, 2014	For the year ended 31 March, 2013
Earnings per share	-	-
Basic	(1.36)	0.52
23.12.a Continuing operations		
Net profit / (loss) for the year from continuing operations	(17,044,081)	6,467,688
Less: Preference dividend and tax thereon		
Net profit / (loss) for the year from continuing operations attributable to the equity shareholders	(17,044,081)	6,467,688
Weighted average number of equity shares	12,499,655	12,499,655
Par value per share	10	10
Earnings per share from continuing operations - Basic	(1.36)	0.52
Diluted		
The diluted earnings per share has been computed by dividing the Net Profit After Tax available for Equity Shareholders by the weighted average number of equity shares, after giving dilutive effect of the outstanding Warrants, Stock Options and Convertible bonds for the respective periods. Since, the effect of the conversion of Preference shares was anti-dilutive, it has been ignored.		
23.12.b Continuing operations		
Net profit / (loss) for the year from continuing operations	(17,044,081)	6,467,688
Less: Preference dividend and tax thereon	-	-
Net profit / (loss) for the year attributable to the equity shareholders from continuing operations	(17,044,081)	6,467,688
Add: Interest expense and exchange fluctuation on convertible bonds (net)	-	-
Profit / (loss) attributable to equity shareholders from continuing operations (on dilution)	(17,044,081)	6,467,688
Weighted average number of equity shares for Basic EPS	12,499,655	12,499,655
Add: Effect of warrants, ESOPs and Convertible bonds which are dilutive	-	-
Weighted average number of equity shares - for diluted EPS	12,499,655	12,499,655
Par value per share	10	10
Earnings per share, from continuing operations - Diluted	(1.36)	0.52

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Rupees

23.13 DISCLOSURES UNDER ACCOUNTING STANDARD - 22

Particulars	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
Deferred tax (liability) / asset		
Tax effect of items constituting deferred tax liability		
On difference between book balance and tax balance of fixed assets	5,871,620	6,906,876
Others	-	-
Tax effect of items constituting deferred tax liability	5,871,620	6,906,876
Tax effect of items constituting deferred tax assets		
Others	-	-
Tax effect of items constituting deferred tax assets	6,485,406	3,527,698
Net deferred tax (liability) / asset	613,787	(3,379,179)
Deferred tax (liability)/asset recognised in Statement of profit and loss	3,992,966	(7,259,018)
Particulars	For the year ended 31 March, 2014	For the year ended 31 March, 2013

23.14 Details of research and development expenditure recognized as an expense

Materials	193.27	0.04
Employee benefits expense	144.86	12.76
Total	338.13	12.80

23.15 Trade debtors and Advances are subject to Reconciliation and Confirmation**23.16 PREVIOUS YEAR'S FIGURES**

Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure. Disclosures are made in respect of items that are applicable to your company.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Note : CORPORATE INFORMATION

Kernex Microsystems(India) Limited is engaged in the manufacture and sale of Safety Systems and Software services for railways.

1 SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of accounting and preparation of financial statements

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared on accrual basis under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year unless otherwise stated.

1.2 Use of estimates

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

1.3 Inventories

Inventories of components are valued at cost or realisable value whichever is less. Work in Progress is valued at cost of materials and services used.

1.4 Cash and cash equivalents

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

1.5 Cash flow statement

Cash flows are reported using the indirect method, whereby profit / (loss) before extraordinary items and tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from operating, investing and financing activities of the Company are segregated based on the available information.

1.6 Depreciation

Depreciation has been provided on the fixed assets on WDV method as per the rates prescribed in Schedule XIV to the Companies Act, 1956.

1.7 Revenue recognition

Revenue from contracts

Revenue from contracts priced on a time and material basis are recognised when services are rendered and related costs are incurred.

Revenue from services

Service income is recognised as per the terms of contracts with the customer, when the related service is performed.

Sale of goods

Revenue from the product sales is exclusive of returns, and applicable trade discounts but inclusive of duties and taxes collected on the same.

1.8 Other income

Interest income is accounted on accrual basis.

1.9 Tangible fixed assets

Fixed Assets are valued at original cost including incidental expenditures, taxes and duties net of CENVAT and VAT credit availed.

Capital work-in-progress:

Projects under which assets are not ready for their intended use and other capital work-in-progress are carried at cost, comprising direct cost, related incidental expenses and attributable interest.

1.10 Foreign currency transactions and translations

Initial recognition

Transactions in foreign currencies entered into by the Company and its integral foreign operations are accounted at the exchange rates prevailing on the date of the transaction or at rates that closely approximate the rate at the date of the transaction.

Measurement of foreign currency monetary items at the Balance Sheet date

Foreign currency monetary items of the Company and its net investment in non-integral foreign operations outstanding at the Balance Sheet date are restated at the year-end rates.

Treatment of exchange differences

Exchange differences arising on settlement / restatement of short-term foreign currency monetary assets and liabilities of the Company are recognised as income or expense in the Statement of Profit and Loss.

1.11 Investments

Long-term investments in Subsidiary (100% wholly owned Subsidiary) are carried at cost.

1.12 Employee benefits

Defined contribution plans

In respect of retirement benefits in the form of provident fund, the contribution payable by the company for a year is charged to the Profit and Loss account.

Defined benefit plans

Gratuity: Gratuity benefit is applicable to all the permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement. The scheme takes into account each completed year of service or part there of in excess of 6 months. Annual Contribution to the employee's Gratuity fund, Established with LIC of India(LIC) are determined based on an actuarial valuation made by the LIC as at the year end.

Short-term employee benefits

The Company does not have any scheme for Leave encashment in place.

1.13 Segment reporting

Since the Company has no Reportable segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.



1.14 Earnings per share

Basic earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) as adjusted for dividend, interest and other charges to expense or income relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares.

1.15 Taxes on income

Current tax is the amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961.

Minimum Alternate Tax (MAT) paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company.

Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantially enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognised only if there is virtual certainty that there will be sufficient future taxable income available to realise such assets. Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability.

1.16 Provisions and contingencies

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed in the Notes.

Consolidated Financial Statements



INTENTIONALLY KEPT BLANK

AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of Kernex Micro Systems (India) Limited

We have audited the accompanying consolidated financial statements of Kernex Micro Systems (India) Limited ("the Company"), and its 100% subsidiary Avant-garde Info Systems inc. USA, which comprise the consolidated Balance sheet as at March 31, 2014, and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view in

order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We did not audit the financial statements of 100% wholly owned overseas subsidiary, whose financial statements include total assets of Rs 615.50 Lakhs as at 31/03/2014, the total loss before the tax Rs 40.23 Lakhs (including interest of Rs21.72 Lakhs on corporate loan from parent company) for the year ended on that date. These financial statements have been compiled by other auditors whose compilation report has been furnished to us, and our opinion is solely based on the compilation report furnished to us.

Opinion

In our opinion and to the best of our Information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India subject to non audit of subsidiary by us:

- (a) In the case of the consolidated Balance Sheet, of the state of affairs of the company as at March 31, 2014;
- (b) In the case of the consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and
- (c) In the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on date.

For GMK Associates

Chartered Accountants

Firm Regn No. 006945S

(G. Satyanarayana Murty)

Partner

Membership No. 029919

Place: Hyderabad

Date: 24th May, 2014

Consolidated Balance Sheet as at 31st March, 2014

Rupees

Particulars	Note No.	As at 31st March 2014	As at 31st March 2013
A EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2	124,996,550	124,996,550
Reserves and surplus	3	1,145,416,735	1,157,881,661
		1,270,413,285	1,282,878,211
Non-current liabilities			
Long-term borrowings	4	57,210,000	-
Deferred tax liabilities (net)	23.13	-	3,379,179
Other long-term liabilities		-	-
Long-term provisions		-	-
		57,210,000	3,379,179
Current liabilities			
Short-term borrowings	5	207,878,558	163,492,282
Trade payables	6	123,667,735	83,950,837
Other current liabilities	7	77,947,049	68,320,948
Short-term provisions	8	2,191,050	7,814,416
		411,684,392	323,578,483
TOTAL		1,739,307,678	1,609,835,873
B ASSETS			
Non-current assets			
Fixed Assets			
Tangible Assets	9	574,715,874	602,001,721
Intangible Assets		1,512,334	2,773,048
Capital work-in-progress		97,440,499	97,440,499
		673,668,707	702,215,268
Non-current investments	10	-	-
Deferred tax assets (net)	23.13	613,787	-
Long-term loans and advances	11	66,046,867	97,958,724
Total non-current assets		740,329,361	800,173,992
Current assets			
Inventories	12	214,763,610	157,019,422
Trade receivables	13	550,718,393	467,723,105
Cash and cash equivalents	14	132,025,572	83,957,976
Short-term loans and advances	15	68,048,668	72,602,915
Other current assets	16	33,422,074	28,358,463
Total current assets		998,978,317	809,661,881
TOTAL		1,739,307,678	1,609,835,873
Significant Accounting Policies	1		

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

For GMK ASSOCIATES

Chartered Accountants

Firm Reg. # 006945S

(G. Satyanarayana Murty)

Partner

Membership # 029919

Place : Hyderabad.

Date : 24.5.2014

B. Murali Mohan

Technical Director

Col. L.V. Raju (Retd.)

Managing Director

K. Ramanjaneyulu

(Company Secretary)

Consolidated Statement of Profit and Loss for the Year ended 31st March' 2014

Rupees

	Particulars	Note No.	As at 31st March 2014	For the year ended 31st March, 2013
1	Revenue from operations (gross)	17	298,298,676	283,100,541
	Less: Excise duty	17	-	778,319
	Revenue from operations (net)		298,298,676	282,322,222
2	Other income	18	29,037,689	29,453,266
3	Total revenue (1+2)		327,336,365	311,775,488
4	Expenses			
(a)	Cost of materials consumed	19.A	23,270,955	23,646,532
(b)	Purchases of stock-in-trade	19.B	29,223,362	14,259,514
(c)	Changes in inventories of finished goods, work-in-progress and stock-in-trade	19.C	(39,777,359)	2,822,955
(d)	Employee benefits expense	20	93,650,824	78,101,029
(e)	Finance costs	21	30,901,140	38,424,285
(f)	Depreciation and amortisation expense	9	40,323,698	27,600,846
(g)	Other expenses	22	174,810,569	112,299,856
	Total expenses		352,403,189	297,155,017
5	Profit / (Loss) before tax (3 - 4)		(25,066,824)	14,620,471
6	Tax expenses			
	Current tax			3,758,001
	(Less): MAT credit (where applicable)			-
(b)	Current tax expense relating to prior years			
(c)	Net current tax expense		-	3,758,001
	Deferred tax	23.13	(3,992,966)	7,259,018
			(3,992,966)	11,017,019
7	Profit / (Loss) for the year (5 +6)		(21,073,858)	3,603,453
8	Earnings per share (of ₹ 10/- each):			
(a)	Basic		(1.69)	0.29
(b)	Diluted		(1.69)	0.29
	Significant Accounting Policies	1		

See accompanying notes forming part of the financial statements

In terms of our report attached.

For and on behalf of the Board of Directors

For GMK ASSOCIATES

Chartered Accountants

Firm Reg. # 006945S

(G. Satyanarayana Murty)

Partner

Membership # 029919

Place : Hyderabad.

Date : 24.5.2014

B. Murali Mohan

Technical Director

Col. L.V. Raju (Retd.)

Managing Director

K. Ramanjaneyulu

(Company Secretary)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2014

Rupees

Particulars	For the year ended 31 March, 2014		For the year ended 31 March, 2013	
	₹	₹	₹	₹
A. Cash flow from operating activities				
<i>Net Profit / (Loss) before extraordinary items and tax</i>		(25,066,824)		14,620,471
<i>Adjustments for:</i>				
Depreciation and amortisation	40,323,698		27,600,846	
Finance costs	30,901,140		38,424,285	
Interest income	(5,729,136)		(9,781,003)	
		65,495,702		56,244,128
Operating profit / (loss) before working capital changes		40,428,879		70,864,599
Changes in working capital:				
<i>Adjustments for (increase)/ decrease in operating assets:</i>				
Inventories	(57,744,188)		9,586,570	
Trade receivables	(82,995,288)		(41,790,695)	
Short-term loans and advances	4,554,247		15,823,839	
Long-term loans and advances	31,911,857		(6,404,274)	
Other current assets	(5,063,611)		5,501,568	
Foreign exchange reserve	6,050,284		-	
<i>Adjustments for increase / (decrease) in operating liabilities:</i>				
Trade payables	39,716,898		9,818,226	
Other current liabilities	9,626,101		(28,145,720)	
		(53,943,699)		(35,610,486)
Cash generated from operations		(13,514,821)		35,254,113
Net cash flow from / (used in) operating activities (A)		(13,514,821)		35,254,113
B. Cash flow from investing activities				
Capital expenditure on fixed assets, including capital advances	(11,771,892)		(12,798,105)	
Interest received	5,729,136		9,781,003	
Net income tax (paid) / refunds	(5,623,363)		553,333	
Net cash flow from / (used in) investing activities (B)		(11,666,119)		(2,463,769)
C. Cash flow from financing activities				
Increase in long-term borrowings	57,210,000			
Net increase / (decrease) in working capital borrowings	44,386,276		(15,523,422)	
Finance cost	(30,901,140)		(38,424,285)	
Dividends paid			(12,499,655)	
Tax on dividend			(2,076,036)	
		70,695,136		(68,523,398)
Net cash flow from / (used in) financing activities (C)		70,695,136		(68,523,398)
Net increase / (decrease) in Cash and cash equivalents (A+B+C)		45,514,196		(35,733,054)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2014

Rupees

Particulars	For the year ended 31 March, 2014		For the year ended 31 March, 2013	
	₹	₹	₹	₹
Cash and cash equivalents at the beginning of the year		83,957,976		118,847,103
Effect of exchange differences on restatement of		2,553,400		843,927
Foregin currency cash and cash equivalents		-		-
Cash and cash equivalents at the end of the year		132,025,572		83,957,976
Reconciliation of Cash and cash equivalents with the Balance Sheet:				
Cash and cash equivalents as per Balance Sheet		132,025,572		83,957,976
Cash and cash equivalents at the end of the year *		132,025,572		83,957,976
*Comprises:				
(a) Cash on hand		132,377		68,197
(b) Money in transit		22,543,247		-
(c) Balances with banks				
(i) In current accounts		42,536,693		1,013,063
(ii) In EEFC accounts		41,781		37,519
(iii) In deposit accounts		35,674,476		59,603,476
(iv) In earmarked accounts		31,096,998		23,235,721
		132,025,572		83,957,976

In terms of our report attached.

For GMK ASSOCIATES

Chartered Accountants

Firm Reg. # 006945S

(G. Satyanarayana Murty)

Partner

Membership # 029919

Place : Hyderabad.

Date : 24.5.2014

For and on behalf of the Board of Directors

B. Murali Mohan

Technical Director

Col. L.V. Raju (Retd.)

Managing Director

K. Ramanjaneyulu

(Company Secretary)

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 2 SHARE CAPITAL

Rupees

Particulars	As at 31 March, 2014		As at 31 March, 2013	
	Number of shares	₹	Number of shares	₹
(a) Authorised (Equity shares of ₹ 10/- each with voting rights)	15,000,000	150,000,000	15,000,000	150,000,000
(b) Issued, Subscribed & Paid up Capital	12,499,655	124,996,550	12,499,655	124,996,550
(Equity shares of ₹ 10/- each with voting rights)				
(Company has only one class of Shares i.e, Equity Shares with Voting rights)	12,499,655	124,996,550	12,499,655	124,996,550

2.2 Reconciliation of the number of shares and amount outstanding at the beginning and at the end of the reporting period:

Particulars	Opening Balance	Fresh issue	Closing Balance
Equity shares with voting rights			
Year ended 31 March, 2013			
- Number of shares	12,499,655	-	12,499,655
- Amount (₹)	124,996,550	-	124,996,550
Year ended 31 March, 2014			
- Number of shares	12,499,655	-	12,499,655
- Amount (₹)	124,996,550	-	124,996,550

2.3. Details of shares held by each shareholder holding more than 5% shares

Name of Shareholder	As at 31st March, 2014		As at 31st March, 2013	
	Number of Shares held	% holding in that class of shares	Number of Shares held	% holding in that class of shares
Equity Shares with voting rights				
1. Dr Raju Narsa Manthena	854,633	6.84%	854,633	6.84%
2. Seetharamaraju Manthena	721,992	5.78%	701,894	5.62%
3. Sreelakshmi Manthena	640,398	5.12%	-	0.00%

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 3 RESERVES AND SURPLUS

Rupees

Particulars	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
(a) General reserve		
Opening balance	61,213,631	61,213,631
Less: Foreign Currency Translation adjustment	-	2,558,648
Closing balance	61,213,631	58,654,983
(b) Securities premium account		
Opening balance	917,219,545	917,219,545
Closing balance	917,219,545	917,219,545
(c) Foreign currency translation reserve		
Opening balance	-	-
Add / (Less): Effect of foreign exchange rate variations during the year	6,050,284	-
Add / (Less): Transferred to Statement of Profit and Loss on disposal of the net investment in non-integral foreign operations	-	-
Closing balance	6,050,284	-
(d) Surplus / (Deficit) in Statement of Profit and Loss		
Opening balance	182,007,133	178,403,681
Add: Profit / (Loss) for the year	(21,073,858)	3,603,452
Less: Appropriations	-	-
Dividends proposed to be distributed to equity shareholders (₹1 per share)	-	-
Tax on dividend	-	-
Closing balance	160,933,275	182,007,133
Total	1,145,416,735	1,157,881,661

NOTE # 4 LONG-TERM BORROWINGS

(a) Term Loans		
Secured	-	-
Unsecured - Others	57,210,000	-
Total	57,210,000	-
(i) For the current maturities of long-term borrowings, refer items (a) in Note # 7 Other current liabilities.		

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 5 SHORT-TERM BORROWINGS

		Rupees	
	Particulars	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
(a)	Loans repayable on demand (Working Capital)		
	Secured		
	State Bank of Hyderabad	149,587,501	152,638,995
(b)	Other loans and advances		
	Unsecured	49,530,127	-
	Inter Corporate Deposits	8,760,930	10,853,287
	Total	207,878,558	163,492,282

(i) Details of security for the secured short-term borrowings:

Particulars	Nature of security	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
Loans repayable on demand from banks:			
State Bank of Hyderabad	Working Capital Loans are secured by paripassu hypothecation of all current assets present and future and collaterally secured by first charge over company's fixed assets and equitable mortgage of Land & Buildings situated at Madhapur and APIIC Hardware Park and lands situated at Basanthpur (Nalgonda Dist and Amangal (Mahaboobnagar Dist)	149,587,501	152,638,995
Total From Banks		149,587,501	152,638,995

(ii) Details of short-term borrowings guaranteed by some of the directors:

Particulars	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
Loans repayable on demand from banks- Personal guarantee of the Managing Director	149,587,501	152,638,995
Inter Corporate Deposits are Secured by the pledge of shares of the Company	8,760,930	10,853,287
NOTE # 6 TRADE PAYABLES		
Trade payables:		
Acceptances	-	-
Other than Acceptances	123,667,735	83,950,837
Total	123,667,735	83,950,837

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE # 7 OTHER CURRENT LIABILITIES**

Rupees

Particulars	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
(a) Current maturities of finance lease obligations	-	-
(b) Interest accrued and due on borrowings	1,892,905	1,003,402
(c) Unpaid dividends	487,532	488,731
(d) Application money received for allotment of securities and due for refund	193,300	193,300
(e) Statutory remittances :		
Contribution to ESI	2,219,373	326,545
Contribution to PF	5,215,279	2,544,458
Professional Tax Payable	133,414	47,650
Excise Duty Payable	531,388	531,388
Service Tax Payable	19,988,924	11,175,215
TDS Payable	5,195,422	4,745,489
Works Contract Tax	968,886	572,895
(f) Payables on purchase of fixed assets	2,869,751	3,003,668
(g) Interest accrued on others	486,476	486,476
(h) Advances from customers	37,764,399	43,201,731
Total	77,947,049	68,320,948

NOTE # 8 SHORT-TERM PROVISIONS

(a) Provision - Others:		
(i) Provision for tax	163,293	5,786,659
(i) Proposed dividends	-	-
(ii) Provision for tax on Proposed dividends	2,027,757	2,027,757
Total	2,191,050	7,814,416



NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 9 FIXED ASSETS

NOTE # 9 FIXED ASSETS												Rupees
	Gross block				Accumulated depreciation and impairment					Net block		
	Balance as at 1st April, 2013	Additions	Del/Adj	Balance as at 31st March, 2014	Balance as at 1st April, 2013	Depreciation expense for the year	Adjustments	Balance as at 31st March, 2014	Balance as at 31st March, 2014	Balance as at 31 March, 2013		
A. Tangible assets	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹		
(a) Land & Land Development Freehold	242,929,496	11,771,892	-	254,701,388	-	-	-	-	254,701,388	242,929,496		
(b) Buildings Own use	343,486,963	-	-	343,486,963	43,192,349	30,029,462	-	73,221,811	270,265,152	300,294,614		
(c) Plant and Equipment Owned	138,162,267	-	-	138,162,267	90,010,388	7,134,084	-	97,144,472	41,017,795	48,151,879		
(d) Furniture and Fixtures Owned	12,025,718	-	-	12,025,718	6,050,140	1,081,578	-	7,131,718	4,894,000	5,975,578		
(e) Vehicles Owned	7,846,548	-	-	7,846,548	6,461,577	358,540	-	6,820,117	1,026,431	1,384,971		
(f) Office equipment Owned	9,531,002	-	-	9,531,002	6,265,819	454,075	-	6,719,894	2,811,108	3,265,183		
Total	753,981,994	11,771,892	-	765,753,886	151,980,273	39,057,739	-	191,038,012	574,715,874	602,001,721		
Previous year	425,687,846	349,722,793	21,428,645	753,981,994	146,794,014	26,614,904	21,428,645	151,980,273	602,001,721	278,893,832		
Capital WIP	97,440,499	-	-	97,440,499	-	-	-	-	97,440,499	97,440,499		

	Gross block				Accumulated depreciation and impairment				Net block	
	Balance as at 1st April, 2013	Additions	Del/Adj	Balance as at 31st March, 2014	Balance as at 1st April, 2013	Depreciation expense for the year	Adjustments	Balance as at 31st March, 2014	Balance as at 31st March, 2014	Balance as at 31 March, 2013
B. Intangible assets	₹	₹		₹	₹	₹		₹	₹	₹
Computer Software	3,753,742	-	-	3,753,742	980,694	1,260,713		2,241,407	1,512,334	2,773,048
Previous year	-	3,753,742	-	3,753,742	-	980,694	-	980,694	2,773,048	-

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE # 10 NON-CURRENT INVESTMENTS**

Rupees

Particulars	As at 31 March, 2014			As at 31 March, 2013		
	Quoted #	Unquoted #	Total	Quoted	Unquoted	Total
	₹	₹	₹	₹	₹	₹
Investments (At cost):						
Other investments	-	-	-	-	-	-
Aggregate amount of unquoted investments			-			-

NOTE # 11 LONG-TERM LOANS AND ADVANCES

Particulars	As at 31 March, 2014	As at 31 March, 2013
(a) Capital advances		
Unsecured, considered good	48,899,023	81,082,030
(b) Security deposits		
Unsecured, considered good	3,230,338	2,959,188
(c) MAT credit entitlement # - Unsecured, considered good	13,917,506	13,917,506
Total	66,046,867	97,958,724

NOTE # 12 INVENTORIES

(At lower of cost and net realisable value)

(a) Raw materials	101,418,310	44,577,028
(b) Work-in-progress(refer note(i) below)	113,345,300	112,442,394
Total	214,763,610	157,019,422

Note

(i) Work in Progress Comprises		
ACDs	97,945,575	103,159,790
Service Contracts-ENR	15,399,725	9,282,604
	113,345,300	112,442,394

NOTE # 13 TRADE RECEIVABLES

Trade receivables outstanding for a period exceeding six months from the date they were due for payment

Unsecured, considered good	418,821,355	351,957,886
Doubtful	-	-
Other Trade receivables		
Unsecured, considered good	131,897,038	115,765,219
Total	550,718,393	467,723,105

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 14 CASH AND CASH EQUIVALENTS

		Rupees	
Particulars		As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
(a)	Cash on hand	132,377	68,197
(b)	Money in transit	22,543,247	
(c)	Balances with banks		
(i)	In current accounts	42,536,693	1,013,063
(ii)	In EEFC accounts	41,781	37,519
(iii)	In deposit accounts (Refer Note (i) below)	35,674,476	59,603,476
(iv)	In earmarked accounts		
-	Unpaid dividend accounts	504,227	505,426
-	Unpaid matured deposits		
-	Unpaid matured debentures		
-	Share application money received for allotment of securities and due for refund	193,300	193,300
-	Balances held as margin money or security against borrowings, guarantees and other commitments (Refer Note (i) below)	26,039,213	19,016,414
-	- Escrow accounts (Refer Note (ii) below)	4,360,258	3,520,581
(d)	Gold Coins	-	-
Total		132,025,572	83,957,976
Of the above, the balances that meet the definition of Cash and cash equivalents as per AS 3 Cash Flow Statements is :		132,025,572	83,957,976

Notes:

- (i) Balances with banks include deposits amounting to ₹ NIL (As at 31 March, 2013 ₹ NIL) and margin monies amounting to ₹ NIL (As at 31 March, 2013 ₹ NIL) which have an original maturity of more than 12 months.
- (ii) Balances with banks - Other earmarked accounts (Escrow A/c) include ₹ NIL (As at 31 March, 2013 ₹ NIL) which have restriction on repatriation.

NOTE # 15 SHORT-TERM LOANS AND ADVANCES

		Rupees	
Particulars		As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
(a)	Security deposits		
	Unsecured, considered good	289,076	279,472
(b)	Loans and advances to employees		
	Unsecured, considered good	-	-
(c)	Prepaid expenses - Unsecured, considered good	1,602,853	1,813,047
(d)	Balances with government authorities		
	Unsecured, considered good	9,893,287	13,542,348
(e)	Advances to Suppliers and Services		
	Unsecured, considered good	56,263,452	56,968,048
Total		68,048,668	72,602,915

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 16 OTHER CURRENT ASSETS

Particulars	Rupees	
	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
(a) Unamortised expenses		
(i) Product Development Expenses	20,835,127	20,835,127
(ii) Organisational and Startup Costs	57,828	57,828
(b) Accruals		
(i) Interest accrued on deposits	2,061,143	2,875,430
(c) Others		
(i) Rent Receivables	10,467,976	4,590,079
Total	33,422,074	28,358,464

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 17 REVENUE FROM OPERATIONS

Rupees

Particulars	For the year ended 31 March, 2014 ₹	For the year ended 31 March, 2013 ₹
(a) Sale of products (Refer Note (i) below)	32,971,708	17,645,135
(b) Sale of services (Refer Note (ii) below)	265,326,968	265,455,406
	298,298,676	283,100,541
Less:		
(c) Excise duty	-	778,319
Total	298,298,676	282,322,222
Note		
(i) Sale of products comprises :		
<i>Manufactured goods</i>		
Others	124,330	1,462,872
Total - Sale of manufactured goods	124,330	1,462,872
<i>Traded goods</i>		
M S Tubular Structures	32,847,378	16,182,263
Total - Sale of Traded goods	32,847,378	16,182,263
Total - Sale of products	32,971,708	17,645,135
(ii) Sale of services comprises		
Software Services	21,048,199	47,769,021
Maintenance Contracts	131,856,185	134,343,462
Instalation & Commissioning	-	-
Service Contracts-Egypt	102,244,678	78,494,589
Others	10,177,906	4,848,334
Total - Sale of services	265,326,968	265,455,406

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE # 18 OTHER INCOME**

		Rupees	
Particulars		For the year ended 31 March, 2014	For the year ended 31 March, 2013
(a)	Interest income (Refer Note (i) below)	5,729,136	9,781,003
(b)	Net gain on foreign currency transactions and translation (other than considered as finance cost)	14,828,609	10,804,326
(c)	Other non-operating income (net of expenses directly attributable to such income) (Refer Note (ii) below)	8,479,945	8,867,937
	Total	29,037,689	29,453,266
i)	Interest income comprises:		
	Interest from banks on:		
	Deposits	5,485,830	7,365,843
	Others	243,306	14,110
	Interest on advances given to Subsidiaries	-	-
	Interest on income tax refund	-	2,401,050
	Total - Interest income	5,729,136	9,781,003
ii)	Other non-operating income comprises:		
	Rental Income (inclusive of Servicetax collected)	8,100,045	7,830,373
	Other Misc. Income	379,900	1,037,564
	Total - Other non-operating income	8,479,945	8,867,937

NOTE # 19.A COST OF MATERIALS CONSUMED

Opening stock	83,451,481	51,340,643
Add: Purchases	41,237,784	16,882,917
	124,689,265	68,223,560
Less: Closing stock	101,418,310	44,577,028
Cost of material consumed	23,270,955	23,646,532
Material consumed comprises:		
Electronic Components	23,270,955	23,646,532
Total	23,270,955	23,646,532

NOTE # 19.B PURCHASE OF TRADED GOODS

Others	29,223,362	14,259,514
Total	29,223,362	14,259,514

NOTE # 19.C CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS AND STOCK-IN-TRADE

Inventories at the end of the year:		
Work-in-progress	113,345,300	112,442,394
	113,345,300	112,442,394
Inventories at the beginning of the year:		
Work-in-progress*	73,567,941	115,265,349
	73,567,941	115,265,349
Net (increase) / decrease	(39,777,359)	2,822,955

*An amount of Rs.3,88,74,453 was transferred from WIP to ram materials for maintenance purpose.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE # 20 EMPLOYEE BENEFITS EXPENSE

Particulars	Rupees	
	For the year ended 31 March, 2014 ₹	For the year ended 31 March, 2013 ₹
Salaries and wages	83,239,486	67,605,357
Contributions to provident and other funds (Refer Note 23.9)	3,390,473	3,381,717
Directors Remuneration	6,120,000	6,120,000
Staff welfare expenses	900,865	993,955
Total	93,650,824	78,101,029

NOTE # 21 FINANCE COSTS

(a) Interest expense on:		
(i) Borrowings	21,969,732	24,545,506
(b) Other borrowing costs	8,850,280	13,878,779
(c) Net (gain) / loss on foreign currency transactions and translation (considered as finance cost)	81,128	-
Total	30,901,140	38,424,285

NOTE # 22 OTHER EXPENSES

Project Execution Expenses	128,736,548	76,241,595
Sales Tax Paid	1,568,353	1,114,340
Service Tax Paid	13,824,669	9,185,178
Water *	-	-
Rent	-	25,190
Repairs and maintenance - Others	4,993,994	3,170,213
Insurance	476,385	531,308
Rates and taxes	4,226,369	3,196,808
Postate, Telephone and Courier	1,153,145	1,235,076
Travelling and conveyance	2,458,362	2,456,916
Directors Sitting Fee	220,000	270,000
Printing and stationery	401,575	446,263
Freight	2,416	1,270
Business promotion	821,251	1,074,058
Professional & Consultancy Fees	8,240,721	1,895,783
Payments to auditors (Refer Note (i) below)	610,950	613,960
Books & Periodicals	8,215	5,100
Security Charges	1,685,745	1,554,393
Electricity Charges	4,021,478	3,449,198
Bad trade debts written off	338,549	5,286,840
General Expenses	1,021,844	546,367
Total	174,810,569	112,299,856

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

₹ in lakhs

Note	Particulars	For the year ended 31 March, 2014 ₹	For the year ended 31 March, 2013 ₹
i)	Payments to the auditors comprises (net of service tax input credit, where applicable):		
	As auditors - statutory audit	600,000	600,000
	Reimbursement of expenses	10,950	8,900
	For other services	-	72,000.00
	Total	610,950	680,900
	Particulars	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹

23.1 CONTINGENCIES

(i)	Contingent liabilities		
(a)	Claims against the company not acknowledged as a debt, in respect of Sales Tax for the year 2002-03 for which the Company appeal is pending before STAT	4.13	4.13
(b)	Bank Guarantees Outstanding	1,689.72	1,384.61
(c)	Income Tax (Before High Court of A.P.)	8.00	8.00
(ii)	Commitments		
	Estimated amount of contracts remaining to be executed on capital account and not provided for		
	Tangible assets	-	54.96
	Intangible assets	-	-

23.2 DISCLOSURES REQUIRED UNDER SECTION 22 OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006

Principal amount remaining unpaid to suppliers as at the end of the accounting year	1.50	1.50
Dues to Micro and Small Enterprises have been determined to the extent such parties have been identified on the basis of information collected by the Management		

23.3 DISCLOSURES UNDER ACCOUNTING STANDARD - 15**EMPLOYEE BENEFIT PLANS****23.3.a Defined contribution plans**

The Company makes Provident Fund contributions to defined contribution plans for qualifying employees. Under the Schemes, the Company is required to contribute a specified percentage of the payroll costs to fund the benefits. The Company recognized ₹ 27.71 Lakhs (Year ended 31 March, 2013 ₹ 22.01 lakhs) for Provident Fund contributions in the Statement of Profit and Loss. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

₹ in lakhs

23.3.b Defined benefit plans

- i) *Leave Encashment* : The Company does not have any scheme for Leave Encashment
- ii) *Gratuity*: Gratuity benefit is applicable to all the permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement. The scheme takes into account each completed year of service or part there of in excess of 6 months. Annual Contribution to the employee's Gratuity fund, Established with LIC of India(LIC) are determined based on an actuarial valuation made by the LIC as at the year end.

The following table sets out the funded status of the defined benefit schemes and the amount recognized in the financial statements:

Particulars	Year ended 31 March, 2014 Gratuity	Year ended 31 March, 2013 Gratuity
Components of employer expense		
Current service cost	-	76,800
Total expense recognized in the Statement of Profit and Loss	-	76,800
Actual contribution and benefit payments for year		
Actual benefit payments	796,388	1,397,625
Actual contributions	-	-

23.4 DISCLOSURES UNDER ACCOUNTING STANDARD - 17

Segment information

Since the Company has no reportable Segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.

23.5 DISCLOSURES UNDER ACCOUNTING STANDARD - 18

RELATED PARTY TRANSACTIONS

23.5.a Details of related parties:

Description of relationship	Names of related parties
Subsidiaries	Avant- Garde Info systems Inc, USA (100% Wholly Owned Subsidiary)
Key Management Personnel (KMP)	Col. L.V Raju(retd) - Managing Director & B Murali Mohan- Whole Time Director

Note: Related parties have been identified by the Management.

23.5.b Details of related party transactions during the year ended 31st March, 2014 and balances outstanding as at 31st March, 2014:

	Subsidiaries	KMP	Total
Receiving of services – Directors remuneration	-	61.20	61.20
(Previous Year)	-	(61.20)	(61.20)
Finance --Interest receivable on USL	19.85	-	19.85
(Previous Year)	(17.95)	-	(17.95)
Finance --USL Given	-	-	-
(Previous Year)	-	-	-
Balances outstanding at the end of the year			
Loans and advances (Including Interest on Working Capital)	357.00	-	357.00
(Previous Year)	(270.00)	-	(270.00)

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

₹ in lakhs

23.6 DISCLOSURES UNDER ACCOUNTING STANDARD - 20

Particulars	For the year ended 31 March, 2014 ₹	For the year ended 31 March, 2013 ₹
Earnings per share		
Basic	(1.69)	0.29
23.6.a Continuing operations		
Net profit / (loss) for the year from continuing operations	(21,073,858)	3,603,453
Less: Preference dividend and tax thereon		
Net profit / (loss) for the year from continuing operations attributable to the equity shareholders	(21,073,858)	3,603,453
Weighted average number of equity shares	12,499,655	12,499,655
Par value per share	10	10
Earnings per share from continuing operations - Basic	(1.69)	0.29
Diluted		
The diluted earnings per share has been computed by dividing the Net Profit After Tax available for Equity Shareholders by the weighted average number of equity shares, after giving dilutive effect of the outstanding Warrants, Stock Options and Convertible bonds for the respective periods. Since, the effect of the conversion of Preference shares was anti-dilutive, it has been ignored.		
23.6.b Continuing operations		
Net profit / (loss) for the year from continuing operations	(21,073,858)	3,603,453
Less: Preference dividend and tax thereon	-	-
Net profit / (loss) for the year attributable to the equity shareholders from continuing operations	(21,073,858)	3,603,453
Add: Interest expense and exchange fluctuation on convertible bonds (net)	-	-
Profit / (loss) attributable to equity shareholders from continuing operations (on dilution)	(21,073,858)	3,603,453
Weighted average number of equity shares for Basic EPS	12,499,655	12,499,655
Add: Effect of warrants, ESOPs and Convertible bonds which are dilutive	-	-
Weighted average number of equity shares - for diluted EPS	12,499,655	12,499,655
Par value per share	10	10
Earnings per share, from continuing operations - Diluted	(1.69)	0.29

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

₹ in lakhs

23.7 DISCLOSURES UNDER ACCOUNTING STANDARD - 22

Particulars	As at 31 March, 2014 ₹	As at 31 March, 2013 ₹
Deferred tax (liability) / asset		
<i>Tax effect of items constituting deferred tax liability</i>		
On difference between book balance and tax balance of fixed assets	5,871,619	6,906,876
On expenditure deferred in the books but allowable for tax purposes	-	-
On items included in Reserves and surplus pending amortization into the Statement of Profit and Loss	-	-
<i>Others</i>		
Tax effect of items constituting deferred tax liability	5,871,619	6,906,876
<i>Tax effect of items constituting deferred tax assets</i>		
Provision for compensated absences, gratuity and other employee benefits	-	-
Provision for doubtful debts / advances	-	-
Disallowances under Section 40(a)(i), 43B of the Income Tax Act, 1961	6,485,406	3,527,698
On difference between book balance and tax balance of fixed assets	-	-
Unabsorbed depreciation carried forward	-	-
Brought forward business losses	-	-
On items included in Reserves and surplus pending amortization into the Statement of Profit and Loss	-	-
<i>Others</i>		-
Tax effect of items constituting deferred tax assets	6,485,406	3,527,698
Net deferred tax (liability) / asset	613,787	-3,379,179
Deferred tax (liability)/asset recognised in Statement of profit and loss	3,992,966	-7,259,018

Note	Particulars	For the year ended 31 March, 2014 ₹	For the year ended 31 March, 2013 ₹
23.8	Details of research and development expenditure recognized as an expense		
	Materials	193.27	0.04
	Employee benefits expense	144.86	12.76
	Total	338.13	12.80

23.8 Trade debtors and Advances are subject to Reconciliation and Confirmation
23.9 PREVIOUS YEAR'S FIGURES

Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure. Disclosures are made in respect of items that are applicable to your company.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of accounting and preparation of financial statements

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared on accrual basis under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year unless otherwise stated.

- a. The Consolidated Financial Statements have been prepared on the following basis: The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the accounting standards on consolidated financial statements issued by the ICAI. The financial statements of the Parent Company Kernex Microsystems(India) Limited, have been combined with 100% WOS Avant-Garde Infosystems Inc, USA on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting un-realised gain / loss.
- b. The Excess/deficit of cost to the parent company of its investment in the subsidiary over its portion of equity in the subsidiary at the respective dates on which investment in such subsidiary was made is recognised in the financial statements as goodwill/capital reserve.
- c. The Parent Company's portion of equity in such subsidiary is determined on the basis of the investment made as on the date of transaction as per the financial statements of the subsidiary
- d. The Consolidated Financial statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements
- e. The Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in the similar circumstances

1.2 Use of estimates

The preparation of the financial statements is in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

1.3 Inventories

Inventories of components are valued at cost or realisable value whichever is less. Work in Progress is valued at cost of materials and services used.

1.4 Cash and cash equivalents

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.



1.5 Cash flow statement

Cash flows are reported using the indirect method, whereby profit / (loss) before extraordinary items and tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from operating, investing and financing activities of the Company are segregated based on the available information.

1.6 Depreciation and amortisation

Depreciation has been provided on the fixed assets on WDV method as per the rates prescribed in Schedule XIV to the Companies Act, 1956.

Depreciation is calculated on the computer equipment. Office equipment and Furniture and fixtures over their estimated useful lives for the subsidiary.

Start-up and Organisational Costs and Computer Software are amortised over a period of its useful life.

1.7 Revenue recognition

Revenue from contracts

Revenue from contracts priced on a time and material basis are recognised when services are rendered and related costs are incurred.

Revenue from services

Service income is recognised as per the terms of contracts with the customer, when the related service is performed.

Sale of goods

Revenue from the product sales is exclusive of returns, and applicable trade discounts but inclusive of duties and taxes collected on the same.

1.8 Other income

Interest income is accounted on accrual basis.

1.9 Tangible fixed assets

Fixed Assets are valued at original cost including incidental expenditures, taxes and duties net of CENVAT and VAT credit availed.

Capital work-in-progress:

Capital Expenditure incurred on expansion project at Hardware Technology Park (HTP) is under advanced stage of completion and shown under Capital Work in Progress.

1.10 Foreign currency transactions and translations

Initial recognition

Transactions in foreign currencies entered into by the Company and its integral foreign operations are accounted at the exchange rates prevailing on the date of the transaction or at rates that closely approximate the rate at the date of the transaction.

Measurement of foreign currency monetary items at the Balance Sheet date

Foreign currency monetary items of the Company and its net investment in non-integral foreign operations outstanding at the Balance Sheet date are restated at the year-end rates.

Treatment of exchange differences

Exchange differences arising on settlement / restatement of short-term foreign currency monetary assets and liabilities of the Company are recognised as income or expense in the Statement of Profit and Loss.

1.11 Employee benefits

Defined contribution plans

In respect of retirement benefits in the form of provident fund, the contribution payable by the company for a year is charged to the Profit and Loss account.

Defined benefit plans

Gratuity: Gratuity benefit is applicable to all the permanent and full time employees of the company. Gratuity paid out is based on last drawn basic salary and DA at the time of termination or retirement. The scheme takes into account each completed year of service or part there of in excess of 6 months. Annual Contribution to the employee's Gratuity fund, Established with LIC of India(LIC) are determined based on an actuarial valuation made by the LIC as at the year end.

Short-term employee benefits

The Company does not have any scheme for Leave encashment in place.

1.12 Segment reporting

Since the Company has no Reportable segment to report, "Segment Reporting" under "Accounting Standard - 17" Issued by "Institute of Chartered Accountants of India (ICAI)" is not applicable.

1.13 Earnings per share

Basic earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) as adjusted for dividend, interest and other charges to expense or income relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares.

1.14 Taxes on income

Current tax is the amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961.

Minimum Alternate Tax (MAT) paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company.

Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantially enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognised only if there is virtual certainty that there will be sufficient future taxable income available to realise such assets. Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability.

1.15 Provisions and contingencies

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed in the Notes.

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956.

01.	Name of Subsidiary Company	Avant - Garde Infosystems Inc.,
02.	Financial Year of Subsidiary Company	Ended on 31-03-2014
03.	Holding Company's Interest	100%
04.	Number of Shares held by Kernex Microsystems (India) Limited in the Subsidiary Company The net aggregate of Profits for the current financial year of Subsidiary Company, so far it concerns to the members of the Company	35,80,000 Ordinary Shares of \$0.02 each and 17,99,240 Equity Shares of US \$ 0.10 each
05.	a) Dealt with in the accounts of Holding Company b) Not Dealt with in the accounts of Holding Company	-- (\$40,603)
06.	The net aggregate of losses for the previous financial years of the Subsidiary Company, so far it concerns to the members of the Holding Company: Dealt with in the accounts of Holding Company Not Dealt with in the accounts of Holding Company	-- (\$3,82,789)

- Notes: 1. Avant-Garde Infosystems Inc, USA was incorporated on September 25, 2000 as 100% subsidiary of Kernex Microsystems (India) Limited.
2. The Financial year of Holding Company and the Subsidiary ended on March, 31, 2014

For and on behalf of the Board of Directors

B. Murali Mohan
Technical Director

Col. L.V. Raju (Retd.)
Managing Director

Place: Hydetrabad
Date: 24th May, 2014

K. Ramanjaneyulu
(Company Secretary)

AVANT GRADE INFOSYSTEMS INC, U.S.A

DIRECTORS' REPORT

To

The Members

The Board of Directors of Avant-Garde Infosystems Inc, has pleasure in submitting the 12th Annual Report in respect of the period from 1st April, 2013 to 31st March, 2014.

Directors

The name of the Directors in office during or since the end of the Financial Year Are :

<u>Names</u>	<u>Position</u>
Col. L.V. Raju (Retd.)	Director and President
L. Muralidhar Raju	Director

Principal Activity

The Principal activity of the Company during the Financial Year was developing, marketing software services and products in American Continent.

Financial Year

The Financial year of the Company is from 1st April, to 31st March to align with Kernex Microsystems (India) Limited, the Holding Company.

Financial Results

The net loss of the Company for the Financial Year was Rs. 40.29 Lakhs due to provision of interest on the loan availed from Kernex Microsystems (India) Limited.

Operations

During the year the Company did not receive any income.

Future Prospects

The balance work on account of improving "Patient Medical Documentation Tracking Systems" is going as per the additional functional requirements from its technology partner wolverine systems, Detroit and the marketing of the product to the corporate hospital in USA.

For AVANT-GARDE INFOSYSTEMS INC.,

Col. L. V. RAJU (Retd.)

Director

Date: 22nd May, 2014

AVANT – GARDE INFOSYSTEMS INC, U S A

BALANCE SHEET AS AT 31ST MARCH, 2014

(Amount in Rs.)

	SCH	Year ended March 31, 2014	Year ended March 31, 2013
SOURCES OF FUNDS:			
Share Capital	I	11,830,950	11,830,950
Reserves and Surplus	II	(19,697,064)	(15,667,287)
Secured Loans			-
Un-secured Loans	III	69,416,203	12,206,203
TOTAL SOURCES		61,550,089	8,369,866
APPLICATION OF FUNDS:			
Fixed Assets (Net Block)			
Gross Block	IV	1,143,048	1,143,048
Less: Depreciation		1,143,048	1,143,048
Net Block		-	-
CURRENT ASSETS, LOANS & ADVANCES			
Sundry debtors		-	-
Cash and bank balances	V	42,076,761	109,521
Advances & Deposits	VI	-	-
TOTAL CURRENT ASSETS		42,076,761	109,521
LESS: Current liabilities	VII	1,419,626	12,637,857
NET CURRENT ASSETS		40,657,134	(12,528,336)
Miscellaneous Expenditure (To the extent not written off)			
Organisational Costs and Start-Up Costs	VIII	57,828	63,075
Research and Development Costs		20,835,127	20,835,127
Notes on accounts	IX		
Forming part of accounts		61,550,089	8,369,866

for AVANT-GARDE INFOSYSTEMS INC.,

Col. L. V. RAJU (Retd.)

Director

Date: 22nd May, 2014

AVANT – GARDE INFOSYSTEMS INC, U S A**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31ST MARCH, 2014**

(Amount in Rs.)

	Year ended March 31, 2014	Year ended March 31, 2013
INCOME		
Sales	-	-
Total	-	-
EXPENDITURE		
Rent	-	233,025
Accounting	113,276	93,210
Bank Charges	16,877	3,394
Garbage	-	-
Interest	2,171,920	1,577,400
Amortization Expenses	5,248	5,248
Taxes	14,303	45,410
Total Expenses	2,321,623	1,957,687
Profit / (Loss) before Tax and extraordinary items	(2,321,623)	(1,957,687)
Add / (Less) : Net Exchange Difference	(1,708,153)	(1,434,640)
Profit / (Loss before Tax)	(4,029,776)	(3,392,327)
Provision for Tax	-	-
Profit after Tax	(4,029,776)	(3,392,327)
Profit / (Loss) brought forward from earlier years	(15,667,287)	(12,274,961)
Profit / (Loss) carried to Balance Sheet	(19,697,064)	(15,667,287)

for AVANT-GARDE INFOSYSTEMS INC.,**Col. L. V. RAJU** (Retd.)

Director

Date: 22nd May, 2014

AVANT – GARDE INFOSYSTEMS INC, U S A

SCHEDULES FORMING PART OF BALANCE SHEET

	March 31, 2014	March 31, 2013
SCHEDULE 'I'		
SHARE CAPITAL		
Authorised Capital		
Common Shares at no par value	50,000,000	50,000,000
Issued, Subscribed and Paid-up Capital		
35,80,000 equity shares of US\$0.02 and 17,99,240 equity shares of US\$ 0.10	11,830,950	11,830,950
	<u>11,830,950</u>	<u>11,830,950</u>
SCHEDULE 'II'		
Reserves and Surplus	(19,697,064)	(15,667,287)
	<u>(19,697,064)</u>	<u>(15,667,287)</u>
SCHEDULE 'III'		
Unsecured Loans :		
Loan from Kernex Microsystems (India) Ltd	12,206,203	12,206,203
Loan from Millenium Strategic Group	57,210,000	-
	<u>69,416,203</u>	<u>12,206,203</u>
SCHEDULE 'V'		
Cash and Bank Balances		
California Pacific Bank	42,076,761	109,521
	<u>42,076,761</u>	<u>109,521</u>
SCHEDULE 'VI'		
Loans and Advances		
(Considered Good unless otherwise stated)		
Rent Deposit	-	-
Accounts Receivables	-	-
Advance for suppliers	-	-
Pre-Paid Taxes	-	-
	<u>-</u>	<u>-</u>
SCHEDULE 'VII'		
Current Liabilities and Provisions		
Rent Payable	219,208	77,938
Accounts Payable	55,283	99,333
Interest Payable	1,145,135	12,460,586
	<u>1,419,626</u>	<u>12,637,857</u>
SCHEDULE 'VIII'		
Miscellaneous Expenditure to the Extent not written off or Adjusted		
Research & Development Expenses	20,835,127	20,835,127
Organisational Costs	143,039	143,039
Start-up Costs	244,872	244,872
Computer Software	71,488	71,488
Total	<u>459,399</u>	<u>459,399</u>
Less: Already Amortized	396,324	391,076
Less Amortized during the year	5,248	5,248
Balance	<u>57,828</u>	<u>63,075</u>

AVANT GRADE INFOSYSTEMS INC., U.S.A

NOTE # 7 FIXED ASSETS										Rupees	
	Particulars	Gross block			Accumulated depreciation and impairment			Net block			
		Balance as at 1 April, 2013	Additions	Balance as at 31 March, 2014	Balance as at 1 April, 2013	Depreciation expense for the year	Balance as at 31 March, 2014	Balance as at 31 March, 2014	Balance as at 31 March, 2013		
A.		₹	₹	₹	₹	₹	₹	₹	₹		
	(a) Plant and Equipment Owned	560,795	-	560,795	560,795	-	560,795	-	-		
	(b) Furniture and Fixtures Owned	430,757	-	430,757	430,757	-	430,757	-	-		
	(c) Office equipment Owned	294,535	-	294,535	294,535	-	294,535	-	-		
	Total	1,286,087	-	1,286,087	1,286,087	-	1,286,087	-	-		
	Previous year	1,286,087	-	1,286,087	1,286,087	-	1,286,087	-	-		
B.	Misc. Expenditure to be Written Off										
	Startup Cost	244,872	-	244,872	191,726	4,062	195,788	49,084	53,146		
	Organisational Cost	71,488	-	71,488	61,558	1,186	62,744	8,744	9,930		

AVANT GRADE INFOSYSTEMS INC, U.S.A**Notes forming part of the financial statements****Note****CORPORATE INFORMATION**

The Principal activities of the company are that of provision of computer consultancy, software development and related services

1 SIGNIFICANT ACCOUNTING POLICIES**1.1 Basis of accounting and preparation of financial statements**

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared on accrual basis and expressed in equivalent Indian Rupees under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year unless otherwise stated.

1.2 The Financial statements are prepared for the period from 1st April 2013 to 31st March, 2014.

1.3 Use of estimates

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognized in the periods in which the results are known / materialise.

1.4 Related Party transactions

The Company has received working capital loan from Kernex Microsystems (India) Limited (Holding Company) in the previous financial years.

1.5 Cash and cash equivalents

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

1.6 Fixed Assets, Depreciation and amortization

Depreciation has been provided on Fixed Assets under WDV method as per the rates prescribed in Schedule XIV to the Companies Act, 1956. Depreciation is calculated on the computer Equipment, office Equipment and Furniture and Fixtures over their estimated useful lives for the subsidiary. Start-up and organizational costs and Computer Software are amortized over a period of its useful life.

1.7 Foreign currency transactions and translations*Initial recognition*

Transactions in foreign currencies entered into by the Company and its integral foreign operations are accounted at the exchange rates prevailing on the date of the transaction or at rates that closely approximate the rate at the date of the transaction.

Measurement of foreign currency monetary items at the Balance Sheet date

Foreign currency monetary items of the Company and its net investment in non-integral foreign operations outstanding at the Balance Sheet date are restated at the year-end rates.

Treatment of exchange differences

"Exchange differences arising on settlement / restatement of short-term foreign currency monetary assets and liabilities of the Company are recognized as income or expense in the Statement of Profit and Loss."

1.8 The Financial statements are the responsibility of the Company's management and are not required to be audited as per the existing US laws.

1.9 The Balance Sheet & Statement of Profit and loss for the year ended 31.03.2014 are prepared based on the financial statements duly certified by the C.P.A

1.10 Provisions and contingencies

A provision is recognized when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed in the Notes.

1.11 *Previous year figures were re-grouped and rearranged where ever necessary.*



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Kernex Microsystems (India) Limited

Corporate Identification No. (CIN) – L30007TG1991PLC013211

Registered Office: “THRUSHNA” Plot No.7, Software Units Layout, Madhapur, Hyd-500081.

Phone: +91-40-23113192/94, Fax: +91-40-23113189/91,

E-mail:rajulv@kernex.stph.net/kernex@kernex.stph.net, Web site: <http://kernex.in>

ATTENDANCE SLIP

22nd Annual General Meeting on Saturday, 27th September, 2014 at 3.00 P.M. At Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500003.

DP Id*	
Client Id*	
Regd.Folio No.	

Name and Address of the Shareholder: _____

No. of Share(s) held: _____

I certify that I am a member/proxy for a member of the Company. I hereby record my presence at the 22nd Annual General Meeting of the Company at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad - 500 003 at 3.00 P.M. on Saturday, the September 27, 2014.

** Member's/Proxy's name in Block Letters

** Member's/Proxy's Signature

Note:

1. please sign this attendance slip and hand it over at the Attendance Verification Counter at the Entrance of the Meeting Hall.
2. This Attendance Slip is valid only in case shares are held on the date of the meeting.

* Applicable for Investors holding shares in electronic form

** Strike out whichever is not applicable.





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Corporate Identification No. (CIN) – L30007TG1991PLC013211

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Phone: +91-40-23113192/94, Fax: +91-40-23113189/91,

E-mail:rajulv@kernex.stph.net/kernex@kernex.stph.net, Web site: http://kernex.in

PROXY FORM

(Form No. MGT-11)

(Pursuant to Section 105(6) of the Companies Act, 2013 and Rule 19(3) of the Companies (Management and Administration) Rules, 2014)

Name of the Member(s) : _____

Registered Address : _____

E-mail ID : _____

Folio/DP ID – Client ID No. _____

I / We, being the member(s) of Shares of Kernex Microsystems (India) Limited, hereby appoint

1. Name:..... E-mail Id:.....

Address:.....

..... Signature :.....

Or failing him

2. Name:..... E-mail Id:.....

Address:.....

..... Signature :.....

Or failing him

3. Name:..... E-mail Id:.....

Address:.....

..... Signature :.....

as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the Twenty Second Annual General Meeting of the Company to be held on Saturday, 27th September, 2014 at 3.00 p.m. at Hotel Minerva Grand, Sarojini Devi Road, Secunderabad-500003 and at any adjournment thereof in respect of such resolutions as are indicated below:

Resolution No.	Resolution	Optional	
Ordinary Business		For	Against
1.	Adoption of Audited Statement of Profit and Loss, Balance Sheet, Report of Board of Directors and Auditors for the year ended March 31, 2014.		
2.	Re-appointment of Dr. Anji Raju Manthena as a Director of the Company.		
3.	Re-appointment of Dr. Vinta Janardhana Reddy as a Director of the Company		
4.	Appointment of Auditors		
5.	Appointment of Sri. Venkata Ratnam Anugolu as a Non-Executive Independent Director		
6.	Appointment of Sri. Gopalakrishna Muddusetty as a Non-Executive Independent Director		
7.	Appointment of Sri. Arun Kumar Sanwalka as a Non-Executive Independent Director		
8.	Special Resolution under Section 180(1)(a) of the Companies Act, 2013 Creation of Charge on Company's Properties.		
9.	Special Resolution under Section 180(1)(c) of the Companies Act, 2013 for Borrowing Powers of the Board.		

Signed this day of 2014

Affix Re.1
Revenue
Stamp

Signature of shareholder

Signature of Proxy holder(s)

NOTES:

- This Form in order to be effective should be duly completed and deposited at the Registered Office of the Company at "THRUSHNA" Plot No.7, Software Units Layout, Madhapur, Hyd-500081, not less than 48 hours before the commencement of the Meeting.
Those Members who have multiple folios with different joint holders may use copies of this Attendance slip/ Proxy.
- A Proxy need not be a member of the Company.
- A person can act as a proxy on behalf of members not exceeding fifty and holding in the aggregate not more than 10% of the total share capital of the Company carrying voting rights. A member holding more than 10% of the total share capital of the Company carrying voting rights may appoint a single person as proxy and such person shall not act as a proxy for any other person or shareholder.
- For the Resolutions, Explanatory Statement and Notes, please refer to the Notice of the 22nd Annual General Meeting.
- *It is optional to put an 'X' in the appropriate column against the Resolutions indicated in the Box. If you leave the 'For' or 'against' column blank against any or all Resolutions, your Proxy will be entitled to vote in the manner as he/she thinks appropriate.
- Please complete all details including details of member(s) in above box before submission.

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PRINTED MATTER



If undelivered, please return to :

Kernex Microsystems (India) Limited

"THRUSHNA", PLOT No. 7, SOFTWARE UNITS LAYOUT,
MADHAPUR, HYDERABAD - 500 081, TELANGANA, INDIA.

Tel : 040-23113192, 23113193, Fax : 040-23114187, 23113191

Website : www.kernex.in, e-mail : kernex@kernexmail.in